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**SCANA Corporation to Hold Analyst Call on March 29, 2017 to Discuss Plans
to Continue Work on the New Nuclear Project during a Transition and
Evaluation Period**

Cayce, SC, March 29, 2017... SCANA Corporation (SCANA) (NYSE:SCG), today provided an update with regard to the impact of the Chapter 11 filing of Westinghouse Electric Company, LLC (WEC) on the new nuclear project at the V.C. Summer Nuclear Station. South Carolina Electric & Gas Company, principal subsidiary of SCANA, and V.C. Summer Nuclear Station co-owner, Santee Cooper, contracted with WEC to build two Westinghouse AP1000 reactors in Fairfield County, S.C.

SCANA and Santee Cooper have been working with WEC in anticipation of the bankruptcy filing to reach an agreement, subject to bankruptcy court approval, that allows for work on the project to continue toward completion of the units. This agreement, which will be filed today with the court as part of WEC's bankruptcy filings, allows for a transition and evaluation period during which SCANA and Santee Cooper will assess information provided by WEC and determine the most prudent path forward for the project.

"This agreement with Westinghouse allows progress to continue to be made on-site while we evaluate the most prudent path to take going forward," said SCANA Chairman and CEO, Kevin Marsh. "Fluor will continue as the construction manager during this period and they continue to work towards completion of the units."

Lonnie Carter, Santee Cooper President and CEO, said, "This agreement will provide SCE&G and Santee Cooper the time necessary to perform due diligence related to cost and schedule. It gives us critical direct access to resources and information that Westinghouse had not provided us to date, which will be important as we plan for the future of the project."

David Seaton, Fluor Chairman and CEO, said, "Fluor will continue to support SCANA, Santee Cooper, and Westinghouse on the VC Summer project as the parties work through the current situation. We remain committed to the successful completion of this important project."

SCANA will host a call with financial analysts at 3:00pm Eastern Time on March 29, 2017, during which members of SCANA's management team will provide an update on the impact of WEC's bankruptcy on the new nuclear project.

Details of the call are as follows:

Date and Time: Wednesday, March 29, 2017, 3:00 p.m. Eastern Time

Call in Number: U.S. 888-347-3258
Canada 855-669-9657
International 412-902-4279

Speakers: Kevin Marsh Chief Executive Officer- SCANA
Jimmy Addison Chief Financial Officer – SCANA
Steve Byrne Chief Operating Officer – SCE&G

Instructions: The conference call will begin promptly at 3:00 p.m. Eastern Time. Participants should call in 10-15 minutes early so that operators have sufficient time to record your name and company affiliation prior to the call beginning. Participants who join the call late will be interrupted during the call by the operator to record their name and company affiliation. A replay of the conference call will be available approximately 2 hours after completion of the call through April 10, 2017. To access the replay, call 877-344-7529 (U.S.), 855-669-9658 (Canada), or 412-317-0088 (International) and enter the event code 10104019. A transcript of the call will be available on the Investors section of the Company's website at www.scana.com.

Internet Access: The press release, presentation materials and a live listen-only webcast of the conference call will be available on the Investors section of the website at www.scana.com. The webcast will begin Wednesday, March 29, 2017 at 3:00 p.m. Eastern Time. A replay of the conference call will also be available on the Company's website through April 10, 2017.

PROFILE

SCE&G is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity to approximately 709,000 customers in South Carolina. The company also provides natural gas service to approximately 358,000 customers throughout the state. More information about SCE&G is available at www.sceg.com.

SCANA Corporation, headquartered in Cayce, S.C., is an energy-based holding company principally engaged, through subsidiaries, in electric and natural gas utility operations and other energy-related businesses. The company serves approximately 709,000 electric customers in South Carolina and approximately 1.3 million natural gas customers in South Carolina, North Carolina and Georgia. Information about SCANA and its businesses is available at www.scana.com.

Message

From: Crosby, Michael [/O=EXCHORG/OU=EXCHANGE ADMINISTRATIVE GROUP (FYDIBOHF23SPDLT)/CN=RECIPIENTS/CN=MRCROSBY.SANTEECOOPER.COM]
Sent: 7/7/2017 7:22:50 PM
To: Cherry, Marion [/o=EXCHORG/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=wmcherry.santeecooper.com]; Williams, Jason [/o=EXCHORG/ou=Exchange Administrative Group (FYDIBOHF23SPDLT)/cn=Recipients/cn=jwillia.santeecooper.com]
Subject: FW: [EXTERNAL SENDER] Draft document
Attachments: Garry Flowers - 2017 07 07 - Archie Redlines - VCSummer Schedule Assessment 7-6-2017.doc.rtf

info

From: Crosby, Michael
Sent: Friday, July 07, 2017 7:22 PM
To: Carter, Lonnie; Baxley, Mike
Subject: RE: [EXTERNAL SENDER] Draft document

All great points.

In conversation with Garry Flowers last night ... I told him SCANA would have never required the letter. Santee Cooper required and pushed hard for the letter ... and we simply want Fluor's professional opinion on the achievability of the proposed schedule. I told Garry, now that SCANA has a letter to deal with ... they will attempt to make sure nothing in the letter gets them in trouble with the PSC.

By the way ... you need to know the following about the document:

- Bullet 1 ... is SCANA responsibility under the new PMO.
- Bullet 2 ... SCANA responsibility under the new PMO. I pushed hard for Fluor to be made responsible for WEC engineering performance and incentivize Fluor accordingly ... fell on deaf SCANA ears.
- Bullet 3 ... not used
- Bullet 4 ... SCANA responsibility under the new PMO.
- Bullet 5 ... SCANA must approve a Fluor recommendation on labor acquisition.
- Bullet 6 ... responsibility is a combination of SCANA & Fluor

Archie's redlines are attached ... which I received from Garry around 2pm today.

Redlines are exactly what I expected from SCANA ... a real manipulation and disgusting.

Michael

PS: I informed Garry that SCANA's new GC Stuckey suggested I contact Fluor for a copy of the virgin document (which I had already done as you know).
Today I received the Archie redlines from Garry first ... but later received the redlines from Archie as well.
Not sure what to do about all of this if anything ... but I want to make sure that Garry Flowers does not get caught in any cross-fire ... he has been a great source of intel for Santee Cooper.

Mike-Santee 9/7

From: Carter, Lonnie
Sent: Friday, July 07, 2017 1:06 PM
To: Crosby, Michael
Cc: Baxley, Mike
Subject: Re: [EXTERNAL SENDER] Draft document

Fluor's letter is weak. What is the likely hood of making the criteria they set forth in the letter? Is the schedule reasonable or based on sound project management principles?

Sent from my iPad

On Jul 7, 2017, at 10:39 AM, Crosby, Michael <michael.crosby@santeecooper.com> wrote:
Archie lied to us ... I received this from Fluor last night.

Don't bring up now.

Michael R. Crosby
iPhone

Begin forwarded message:

From: <Garry.Flowers@Fluor.com>
Date: July 6, 2017 at 6:28:01 PM EDT
To: Michael Crosby <mrcrosby@santeecooper.com>
Subject: [EXTERNAL SENDER] Draft document

WARNING: This e-mail is from an external sender. Use caution when opening attachments and clicking links.

Jeff is supposed to send me a marked up copy with his comments tomorrow afternoon. Let me know what you think.

Sent from my iPhone

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If you have questions, please call the Technology Service Desk at Ext. 7777.

<VCSummer Schedule Assessment 7-6-2017.doc.rtf>

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Iris Griffin
(803) 217-6642

**SOUTH CAROLINA ELECTRIC & GAS COMPANY TO CEASE CONSTRUCTION AND WILL FILE
PLAN OF ABANDONMENT OF THE NEW NUCLEAR PROJECT**

SCANA REAFFIRMS EARNINGS GUIDANCE

Cayce, SC, July 31, 2017... South Carolina Electric & Gas Company (SCE&G), principal subsidiary of SCANA Corporation (SCANA) (NYSE:SCG), announced today that it will cease construction of the two new nuclear units (Units) at the V.C. Summer Nuclear Station in Jenkinsville, SC and will promptly file a petition with the Public Service Commission of South Carolina seeking approval of its abandonment plan. This decision was reached by SCE&G after considering the additional costs to complete the Units, the uncertainty regarding the availability of production tax credits for the project, the amount of anticipated guaranty settlement payments from Toshiba Corporation (Toshiba), and other matters associated with continuing construction, including the decision of the co-owner of the project, the South Carolina Public Service Authority (Santee Cooper), the state owned electric utility, to suspend construction of the project. Based on these factors, SCE&G concluded that it would not be in the best interest of its customers and other stakeholders to continue construction of the project.

Following the bankruptcy filing of Westinghouse Electric Company, LLC (WEC), SCE&G and Santee Cooper each began a comprehensive process of evaluating the most prudent path forward for the Units. The project owners worked with WEC and Fluor Corporation, as well as other technical and industry experts, to evaluate the project costs and schedules.

Based on this evaluation and analysis, SCE&G concluded that completion of both Units would be prohibitively expensive. According to SCE&G's analysis, the additional cost to complete both Units beyond the amounts payable in connection with the engineering, procurement, and construction contract would materially exceed prior WEC estimates, as well as the anticipated guaranty settlement payments from Toshiba. Moreover, the Units would need to be online before January 1, 2021, to qualify for production tax credits, under current tax rules. SCE&G's analysis concluded the Units could not be brought online until after this date.

SCE&G also considered the feasibility of completing the construction of Unit 2 and abandoning Unit 3 under the existing ownership structure and using natural gas generation to fulfill any remaining generation needs. This option provided a potentially achievable path forward that may have delivered SCE&G a similar megawatt capacity as its 55% interest in the two Units and provided a long-term hedge against carbon legislation/regulation and against gas price volatility. SCE&G had not reached a final decision regarding this alternative when Santee Cooper determined that it would be unwilling to proceed with continued construction of two Units or one Unit. Consequently, SCE&G determined that it is not in the best interest of customers and other stakeholders for it to continue construction of one Unit.

Based on this evaluation and analysis, and Santee Cooper's decision, SCE&G has concluded that the only remaining prudent course of action will be to abandon the construction of both Unit 2 and Unit 3 under the terms of the Base Load Review Act (BLRA).

SCANA Chairman and CEO, Kevin Marsh, said "We arrived at this very difficult but necessary decision following months of evaluating the project from all perspectives to determine the most prudent path forward. Many factors outside our control have changed since inception of this project. Chief among them, the bankruptcy of our primary construction contractor, Westinghouse, eliminated the benefits of the fixed-price contract to our customers, investors, and other stakeholders. Ultimately, our project co-owner Santee Cooper's decision to suspend construction made clear that proceeding on our own would not be economically feasible. Ceasing work on the project was our least desired option, but this is the right thing to do at this time."

"Many of our employees have worked extremely hard over the years to build these new units. That's one of the factors that makes this decision particularly difficult. We are deeply grateful for all their contributions and will do our best to support those affected by these changes. We also recognize the impact that our path forward will have on customers, communities, shareholders, and the nuclear industry as a whole."

"Our belief in the benefits of nuclear generation -- not just for the state, but for the nation -- hasn't changed. As we have been doing for more than 30 years, we will continue providing customers with a valuable low-cost, non-emitting source of generation through our operating nuclear unit at V.C. Summer."

Normal construction activities at the site will cease immediately and efforts will be shifted toward an orderly transition of winding down and securing the project property. SCE&G plans to use the anticipated payments resulting from the settlement of Toshiba's guaranty to mitigate cost impacts to SCE&G electric customers.

ABANDONMENT PROCEEDING

We intend to fully brief the Public Service Commission of South Carolina Tuesday, August 1, 2017 at 10:00 a.m. Eastern Time and thereafter initiate the abandonment proceeding. In accordance with the BLRA, we will seek an amortization of the project costs and a return at the weighted average cost of capital on the unamortized balance until fully recovered. We plan to use the anticipated proceeds from the Toshiba settlement and benefits derived from tax deductions to mitigate rate increases and lessen the impact on our customers for several years.

ANALYST CALL

SCANA will host a call for financial analysts at 4:00 p.m. Eastern Time on July 31, 2017, during which members of SCANA's management team will discuss this decision and its impact on SCANA's operations, financial statements, and growth strategy.

EARNINGS OUTLOOK

Based on 2016 GAAP earnings per share of \$4.16, SCANA reaffirms its targeted average annual earnings per share growth rate range to be 2 to 4 percent over the next 3 to 5 years due to incremental electric margins attributable to abnormal weather in 2016. Due to the significance of weather to SCE&G's earnings and its unpredictability, SCANA is not able to provide 2017 GAAP earnings guidance.

For 2017, SCANA reaffirms its guidance for 2017 GAAP-Adjusted Weather-Normalized earnings per share of \$4.15 to \$4.35, with an internal target of \$4.25 per share.

In addition to the GAAP basis long-term growth rate guidance above, SCANA reaffirms its targeted average annual growth rate for GAAP-Adjusted Weather-Normalized earnings per share to be 4 to 6 percent over the next 3 to 5 years based on 2016 GAAP-Adjusted Weather-Normalized earnings per

share of \$3.97. 2016 GAAP-Adjusted Weather-Normalized earnings per share reflect downward adjustments of 28 cents per share pre-tax and a tax effect of 9 cents per share for a net of tax 19 cents per share to normalize weather in the electric business.

SCANA's management believes that these non-GAAP earnings and earnings growth measures provide a meaningful representation of SCANA's fundamental earnings power and can aid in performing period-over-period financial analysis and comparison with peer group data. In management's opinion, these non-GAAP measures serve as useful indicators of the financial results of the SCANA's primary businesses and as a basis for management's provision of earnings guidance and growth projections. In addition, management uses these non-GAAP measures in part in making budgetary and operational decisions, including determining eligibility for certain incentive compensation payments. These non-GAAP measures are not intended to replace the GAAP measures of earnings per share or average annual earnings per share growth rate, but are offered as supplements to those GAAP measures.

Factors and risks that could impact future earnings are discussed in the Company's filings with the Securities and Exchange Commission and below under the Safe Harbor Statement.

CONFERENCE CALL DETAILS

Date and Time: Monday, July 31, 2017, 4:00 p.m. Eastern Time

Call in Number: U.S. 888-347-3258
Canada 855-669-9657
International 412-902-4279

Speakers: Kevin Marsh Chief Executive Officer- SCANA
Jimmy Addison Chief Financial Officer – SCANA

Instructions: The conference call will begin promptly at 4:00 p.m. Eastern Time. Participants should call in 10-15 minutes early so that operators have sufficient time to record your name and company affiliation prior to the call beginning. Participants who join the call late will be interrupted during the call by the operator to record their name and company affiliation. A replay of the conference call will be available approximately 2 hours after completion of the call through August 14, 2017. To access the replay, call 877-344-7529 (U.S.), 855-669-9658 (Canada), or 412-317-0088 (International) and enter the event code 10110861. A transcript of the call will be available on the Investors section of the Company's website at www.scana.com.

Internet Access: The press release, presentation materials and a live listen-only webcast of the conference call will be available on the Investors section of the website at www.scana.com. The webcast will begin Monday, July 31, 2017 at 4:00 p.m. Eastern Time. A replay of the conference call will also be available on the Company's website through August 14, 2017.

PROFILE

SCANA Corporation, headquartered in Cayce, S.C., is an energy-based holding company principally engaged, through subsidiaries, in electric and natural gas utility operations and other energy-related businesses. The Company serves approximately 718,000 electric customers in South Carolina and approximately 1.3 million natural gas customers in South Carolina, North Carolina and Georgia. Information about SCANA and its businesses is available on the Company's website at www.scana.com.

SCE&G is a regulated public utility engaged in the generation, transmission, distribution and sale of electricity to approximately 718,000 customers in South Carolina. The company also provides natural gas service to approximately 362,000 customers throughout the state. More information about SCE&G is available at www.sceg.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Statements included in this press release which are not statements of historical fact are intended to be, and are hereby identified as, "forward-looking statements" for purposes of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include, but are not limited to, statements concerning key earnings drivers, customer growth, environmental regulations and expenditures, leverage ratio, projections for pension fund contributions, financing activities, access to sources of capital, impacts of the adoption of new accounting rules and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "forecasts," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" or "continue" or the negative of these terms or other similar terminology. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties, and that actual results could differ materially from those indicated by such forward-looking statements. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements include, but are not limited to, the following: (1) uncertainties relating to the bankruptcy filing by the members of the Consortium building the New Units, including the effect of the anticipated rejection of the EPC Contract and the determination to cease construction of the New Units; (2) the ability of SCANA and its subsidiaries (the Company) to recover through rates the costs incurred upon the abandonment of the New Units; (3) the ability of the Company to recover amounts due from the Consortium or from Toshiba under its payment guaranty and related settlement agreement; (4) changes in tax laws and realization of tax benefits and credits, and the ability or inability to realize credits and deductions, particularly in light of the abandonment of construction of the New Units; (5) the information is of a preliminary nature and may be subject to further and/or continuing review and adjustment; (6) legislative and regulatory actions, particularly changes related to electric and gas services, rate regulation, regulations governing electric grid reliability and pipeline integrity, environmental regulations, the BLRA, and actions affecting the abandonment of the New Units; (7) current and future litigation; (8) the results of short- and long-term financing efforts, including prospects for obtaining access to capital markets and other sources of liquidity, and the effect of rating agency actions on the Company's cost of and access to capital and sources of liquidity; (9) the ability of suppliers, both domestic and international, to timely provide the labor, secure processes, components, parts, tools, equipment and other supplies needed which may be highly specialized or in short supply, at agreed upon quality and prices, for our construction program, operations and maintenance; (10) the results of efforts to ensure the physical and cyber security of key assets and processes; (11) changes in the economy, especially in areas served by subsidiaries of SCANA; (12) the impact of competition from other energy suppliers, including competition from alternate fuels in industrial markets; (13) the impact of conservation and demand side management efforts and/or technological advances on customer usage; (14) the loss of electricity sales to distributed generation, such as solar photovoltaic systems or energy storage systems; (15) growth opportunities for SCANA's regulated and other subsidiaries; (16) the effects of weather, especially in areas where the generation and transmission facilities of SCANA and its subsidiaries are located and in areas served by SCANA's subsidiaries; (17) changes in SCANA's or its subsidiaries' accounting rules and accounting policies; (18) payment and performance by counterparties and customers as contracted and when due; (19) the results of efforts to license, site, construct and finance facilities, and to receive related rate recovery, for electric generation and transmission; (20) the results of efforts to operate the Company's electric and gas systems and assets in accordance with acceptable performance standards, including the impact of additional distributed generation; (21) the availability of fuels such as coal, natural gas and enriched uranium used to produce electricity; the availability of purchased power and natural gas for distribution; the level and volatility of future market prices for such fuels and purchased power; and the ability to recover the costs for such fuels and purchased power; (22) the availability of skilled, licensed and experienced human resources to properly manage, operate, and grow the Company's businesses; (23) labor disputes; (24) performance of SCANA's pension plan assets and the effect(s) of associated discount rates; (25) inflation or deflation; (26) changes in interest rates; (27) compliance with regulations; (28) natural disasters and man-made mishaps that directly affect our operations or the regulations governing them; and (29) the other risks and uncertainties described from time to time in the reports filed by SCANA or SCE&G with the SEC.

SCANA and SCE&G disclaim any obligation to update any forward-looking statements.

Capitalized terms not otherwise defined herein have the meanings as set forth in the Company's most recent periodic report filed with the Securities and Exchange Commission.



J. Michael Baxley, Sr.
Senior Vice President and
General Counsel
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jmbaxley@santeecooper.com

September 3, 2017

Via Electronic Delivery and U.S. Mails

His Excellency Henry D. McMaster
Governor of South Carolina
1100 Gervais Street
Columbia, South Carolina 29201

Dear Governor McMaster,

We are in receipt of your letter of September 2 rejecting Santee Cooper's request for a delay while a judicial determination is made with respect to release of the Bechtel Report.

Your constitutional and statutory authority to direct Santee Cooper to furnish a copy of this document, as set forth in Article IV, Section 17 of the South Carolina Constitution and Section 1-3-10 of the South Carolina Code of Laws, is both understood and respected. We also note and accept your reference to the Rose v. Beasley case which holds that Section 1-3-10 imposes an affirmative duty on public officers to immediately furnish information to the Governor and further provides that "the statute allows a public officer no discretion to delay compliance with the Governor's request."

Therefore, in response to your directive to provide you a copy of the Bechtel Report, and without waiving any other privilege or immunity or legal objections so that we might protect Santee Cooper to the best extent possible under these circumstances, we will provide the document to you.

We renew our request and urge you to assist Santee Cooper in this action by considering certain restrictions on the handling of this document.

First, Santee Cooper agrees to immediately seek a judicial determination, later this week if possible, regarding the issues of privilege relating to the document.

Second, until that determination is made, to protect the privilege and confidentiality, we request that the document provided to you not be copied, distributed, or given to any other individual, even those within your office.

Third, we respectfully request that any contents of the document not be released to the media or any business, legal or financial entities.

It is imperative that we preserve any legal protections associated with this document, given the fact that we are already facing multiple litigation claims over V.C. Summer Units 2 and 3. Your cooperation with respect to these three requests will help us maintain these legal privileges.

Finally, we are prepared to provide this weekend to your representative Thomas Limehouse a sealed copy of the Bechtel Report. Thank you for your understanding of the Authority's difficult position.

Sincerely,


J. Michael Baxley *with permission*

cc: W. Leighton Lord III
Thomas A. Limehouse, Jr.

US governor releases report on VC Summer flaws - World Nuclear News

Page 1 of 2

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US governor releases report on VC Summer flaws

06 September 2017

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Bechtel Corp highlighted "significant issues" at the VC Summer project 18 months before construction of two AP1000 reactors at the site in Fairfield County, South Carolina, was scrapped in July. Difficulties, such as flawed construction plans, faulty designs, inadequate management and low worker morale, were outlined in the engineering, construction and project management company's independent analysis of the project dated February 2016.

On 31 July, Scana Corporation subsidiary South Carolina Electric & Gas (SCG&E) announced its decision to cease construction of the two Westinghouse-designed units at VC Summer. The announcement followed co-owner Santee Cooper's decision to suspend construction because of projected completion delays and cost overruns.

Bechtel's report was released by South Carolina Governor Henry McMaster's office on 4 September against objections from Santee Cooper's lawyers, who asked the governor not to place it in the public domain.

Issues

According to Bechtel's project assessment report for VC Summer, there were eight significant issues facing the project:

- While the consortium's engineering, procurement and construction plans and schedules are integrated, the plans and schedules are not reflective of actual project circumstances;
- The consortium lacks the project management integration needed for a successful project outcome;
- There is a lack of a planned vision, goals and accountability between the owners and the consortium;
- The contract does not appear to be serving the owners or the consortium particularly well;
- The detailed engineering design is not yet completed, which will subsequently affect the performance of procurement and construction;
- The issued design is often not constructible, resulting in a significant number of changes and causing delays;
- The oversight approach taken by the owners does not allow for real-time, appropriate cost and schedule mitigation;
- The relationship between the consortium partners (Westinghouse Electric Company (WEC) and Chicago Bridge & Iron (CB&I)) is strained, caused to a large extent by commercial issues.

Recommendations

Bechtel's recommendations included creating a new "more achievable" project schedule.

The owners should develop an Owner's Project Management Organisation and supplement current owner staff with additional EPC-experienced personnel, it said. The owners and consortium should "align contract commercial conditions with the project goals and determine

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Page 2 of 2

the realistic to-go forecast costs for project completion". The consortium should complete a "new, more achievable" project schedule. It should remove the "mandatory constraints" from the Integrated Project Schedule and allow the schedule to move "based on the logic". It should prioritise the development of mitigation/recovery plans based on their impact to the schedule, it said. It should also ensure appropriate time is allocated for the installation of bulk commodities (large and small bore piping, pipe supports, cable tray, conduit, cabling).

The consortium should "initiate a focused effort to complete WEC known engineering 'debt' and release the over 1000 drawing holds that exist"; intensify the efforts of the Strategic Planning group, work package planning, constructability reviews etc. to identify design changes needed well in advance of the construction need date; and stay on top of identifying and resolving emergent technical issues.

The consortium should also increase manual staffing levels to allow working of all available work areas, and evaluate methods "to have the craftsmen spend more time at the workface". It should implement actions "to improve craft productivity and retention, and simplify and streamline work packages", the report said.

In addition, Bechtel recommended that the consortium "complete the inventory revaluation effort and establish a program to continually validate the inventory". And it should "complete the procurement schedule adherence effort to ensure equipment delivery dates meet construction need dates".

Michael Bexley, senior vice president and general counsel at Santee Cooper, wrote to McMaster on 3 September, providing the Bechtel report as requested and asking that its contents remain confidential. McMaster's office said in a statement on 4 September the governor "believes there is no basis for their 'assertion of privilege' or confidentiality".

Westinghouse filed for Chapter 11 protection from creditors in late March to enable strategic restructuring amid "financial and construction challenges" in its US AP1000 power plant projects.

VC Summer is one of two projects to build Westinghouse AP1000 pressurised water reactors in the USA. The other is Georgia Power's Vogtle plant under construction near Waynesboro in Georgia.

On 31 August, Georgia Power filed a recommendation with the Georgia Public Service Commission to complete construction of Vogtle units 3 and 4 as the most economic choice for customers. The company expects unit 3 to begin commercial operation in November 2021 and unit 4 in November 2022.

Construction of all four US AP1000s - VC Summer and Vogtle - began in 2013.

*Researched and written
by World Nuclear News*

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Crosby, Michael

From: Carter, Lonnie
Sent: Wednesday, September 03, 2014 2:14 PM
To: Crosby, Michael; Baxley, Mike; Pelcher, Steve; Armfield, Jeff
Subject: Fwd:

Let's discuss.

Begin forwarded message:

From: "MARSH, KEVIN B" <KMARSH@scana.com>
Date: September 3, 2014 at 2:06:00 PM EDT
To: "Carter, Lonnie" <lonnie.carter@santeecooper.com>

Lonnie,

I met with my team this morning on a number of nuclear matters and wanted to share our thoughts with you:

1. We discussed the preliminary number given to us late last week by the consortium for delay costs associated with the revised baseline schedule. As you and I discussed last week, this number is very preliminary and will be the basis for lengthy negotiations that will take place over the next several months. I am confident that the number will change as we work to secure a more definite commitment from the consortium with more of their "skin in the game". Since we have already disclosed that we expected to receive a preliminary number, that there would be negotiations around it, and that we plan to complete those negotiations by year end, we don't believe any additional disclosures about the dollar amount of the preliminary cost delay number are necessary. I know that you are planning a bond financing later this month, so I wanted share our thoughts with you and your team with the goal of making our financial disclosures consistent.
2. Our team will begin a review of the delay cost financial information as part of the overall evaluation of the revised baseline schedule. We welcome the assistance of your team in this process. Once we have reviewed the numbers and the schedule, we will be in a position to develop our strategy for negotiations with the consortium that will begin on October 13th.
3. We are ready to move forward with hiring/engaging an additional resource with significant construction expertise to assist us with evaluating the construction schedule and project status. I believe having this person on our staff vs. working as a consultant will avoid conflicts with the consortium on proprietary matters. I would recommend that Jeff Archie work with Mike Crosby to help identify potential candidates for this role.

4. Your legal team asked George Wenick

Redacted - Privileged

Redacted - Privileged

I would be pleased to discuss any of these issues further as we both continue to work hard keep our project moving in the right direction. I appreciate and welcome your thoughts.

Kevin

.....
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.....

• PF

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Crosby, Michael

From: Carter, Lonnie
Sent: Monday, September 08, 2014 6:13 PM
To: Baxley, Mike; Pelcher, Steve; Crosby, Michael
Subject: FW: Summer Units 2 & 3

I just sent this to Kevin. I made a few minor changes.

From: Carter, Lonnie
Sent: Monday, September 08, 2014 6:12 PM
To: 'MARSH, KEVIN B'
Subject: RE: Summer Units 2 & 3

Kevin:

Thank you for your email concerning management of the new nuclear project and our negotiations with the Consortium.

1. Santee Cooper is in agreement on moving forward to engage additional resources in construction management. I agree that Jeff Archie and Michael Crosby work together to develop a job description and placement for you and I to concur. This will allow us to better identify potential candidates. My thinking is that the first task for this individual will be to determine the scope of the task at hand, and the number of personnel/resources needed.
2. With respect to negotiating a new project schedule with the Consortium, my sense is that neither the Owners nor the Consortium have any real confidence that the proposed rollout schedule that the Consortium shared with the Owners on August 1st is achievable. I am concerned that we have become tied to artificial dates, both past and future, often driven by disclosure considerations. The Owners and the Consortium need a schedule that we all have confidence can be achieved and thereby hold the Consortium accountable to achieving milestones. Since the Consortium is so far behind schedule, they should already take steps to mitigate any further delays.

For the Owners to have real conversations and negotiations with the Consortium, we must first complete a detailed review of the schedule information provided based upon the critical path forward, which necessarily includes a consideration of the Shield Building. This would include collectively studying and discussing the June 2019 IPS and supporting Shield Building critical path documentation for the purpose of developing a list of concerns that need to be addressed by the Consortium. [Redacted - Privileged] we should ask George Wenick and Frank Elmore [Redacted - Privileged]

Redacted - Privileged

Redacted - Privileged

[Redacted - Privileged] These two points of information would form the basis for further conversations and negotiations with the Consortium going forward.

As I shared with you before, to the extent that the Consortium is requesting sums from Owners to which they are not presently entitled, Santee Cooper will not agree to pay such amounts absent new and substantial consideration to support such payments. Rewarding the Consortium for poor performance and missed

schedules would be counterproductive. Although Santee Cooper is open as what new and substantial consideration might look like, a Toshiba Performance Guaranty, unbounded by those provisions in the EPC limiting the Consortium's liability, might be worth considering.

3. With respect to disclosure, as you are aware, Santee Cooper intends to issue refunding bonds next month, and must finalize related disclosure documents this week. Our various stakeholders are already aware from the previous disclosure that there has been a delay in construction, and are awaiting further information on the financial component of that delay. We dispute the Consortium's entitlement to almost all of the additional costs (with the exception of agreed site layout and cyber security modifications, less than \$55M which remains to be negotiated), and do not intend to pay any further sum unless we are convinced by the Consortium of their right to payment under the EPC agreement and the accuracy of the requested amounts. Based upon legal advice, Redacted - Privileged

Redacted - Privileged

Please remember that I am not available for a meeting with the Consortium on October 13 due to longstanding schedule commitments. I look forward to discussing these various issues with you and will make my schedule available to that end. I agree with you that we need a strategy for our further conversations and negotiations with the Consortium because time is now of the essence for this Project.

Thanks,

Lonnie

From: MARSH, KEVIN B [<mailto:KMARSH@scana.com>]
Sent: Wednesday, September 03, 2014 2:06 PM
To: Carter, Lonnie
Subject:

Lonnie,

I met with my team this morning on a number of nuclear matters and wanted to share our thoughts with you:

1. We discussed the preliminary number given to us late last week by the consortium for delay costs associated with the revised baseline schedule. As you and I discussed last week, this number is very preliminary and will be the basis for lengthy negotiations that will take place over the next several months. I am confident that the number will change as we work to secure a more definite commitment from the consortium with more of their "skin in the game". Since we have already disclosed that we expected to receive a preliminary number, that there would be negotiations around it, and that we plan to complete those negotiations by year end, we don't believe any additional disclosures about the dollar amount of the preliminary cost delay number are necessary. I know that you are planning a bond financing later this month, so I wanted share our thoughts with you and your team with the goal of making our financial disclosures consistent.

2. Our team will begin a review of the delay cost financial information as part of the overall evaluation of the revised baseline schedule. We welcome the assistance of your team in this process. Once we have reviewed the numbers and the schedule, we will be in a position to develop our strategy for negotiations with the consortium that will begin on October 13th.
3. We are ready to move forward with hiring/engaging an additional resource with significant construction expertise to assist us with evaluating the construction schedule and project status. I believe having this person on our staff vs. working as a consultant will avoid conflicts with the consortium on proprietary matters. I would recommend that Jeff Archie work with Mike Crosby to help identify potential candidates for this role.
4. Your legal team asked George Wenick

Redacted - Privileged

Redacted - Privileged

I would be pleased to discuss any of these issues further as we both continue to work hard keep our project moving in the right direction. I appreciate and welcome your thoughts.

Kevin

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BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

HEARING #15-11488

JULY 21, 2015

10:35 A.M.

DOCKET NO. 2015-103-E:

SOUTH CAROLINA ELECTRIC & GAS COMPANY – *Petition of South Carolina Electric & Gas Company for Updates and Revisions to the Capital Cost Schedule and Schedules Related to the Construction of a Nuclear Base Load Generation Facility at Jenkinsville, South Carolina*

TRANSCRIPT OF TESTIMONY
AND PROCEEDINGS

VOLUME 1 OF 3

HEARING BEFORE: Nikiya M. 'Nikki' HALL, *Chairman*; Swain E. WHITFIELD, *Vice Chairman*; and COMMISSIONERS John E. 'Butch' HOWARD, Elliott F. ELAM, JR., Comer H. 'Randy' RANDALL, Elizabeth B. 'Lib' FLEMING, and G. O'Neal HAMILTON

ADVISOR TO COMMISSION: F. David Butler, Esq.
Senior Counsel

STAFF: Joseph Melchers, General Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; David W. Stark, III, Esq., Legal Staff; Philip Riley, Doug Pratt, Lynn Ballentine, and Tom Ellison, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM/M-GNSC, Court Reporter; and William O. Richardson and Colanthia Alvarez, Hearing Room Assistants

APPEARANCES:

K. CHAD BURGESS, ESQUIRE, MATTHEW W. GISSENDANNER, ESQUIRE, MITCHELL WILLOUGHBY, ESQUIRE, and BELTON T. ZEIGLER, ESQUIRE, representing SOUTH CAROLINA ELECTRIC & GAS COMPANY, PETITIONER

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

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APPEARANCES (Cont'g) :

SCOTT ELLIOTT, ESQUIRE, representing SOUTH CAROLINA ENERGY USERS COMMITTEE, **INTERVENOR**

ROBERT GUILD, ESQUIRE, representing SIERRA CLUB, **INTERVENOR**

JEFFREY M. NELSON, ESQUIRE, and SHANNON BOWYER HUDSON, ESQUIRE, representing the SOUTH CAROLINA OFFICE OF REGULATORY STAFF

I N D E X

PAGE

<u>PRELIMINARY MATTERS</u>	5-11, 30-42
Ms. Hudson.....	8
Hearing Exhibit 1 marked/received [Settlement Agreement + Exhibits].....	10
Mr. Guild	30
1. <u>TESTIMONY OF PUBLIC WITNESS MARY ANDERSON</u>	11
2. <u>TESTIMONY OF PUBLIC WITNESS CORETTA BEDSOLE</u>	15
Hearing Exhibit 2 marked/received [Written comments].....	18
3. <u>TESTIMONY OF PUBLIC WITNESS JAN GILLIGAN</u>	18
4. <u>TESTIMONY OF PUBLIC WITNESS RUSSELL D'ARENSBOURG</u>	22
5. <u>TESTIMONY OF PUBLIC WITNESS PAMELA GREENLAW</u>	23
6. <u>TESTIMONY OF PUBLIC WITNESS SANDRA WRIGHT</u>	26
<u>TESTIMONY OF KEVIN B. MARSH</u>	
Direct Examination by Mr. Burgess.....	42
Summary of prefiled testimony	45
<i>Prefiled direct testimony {w/corrections}</i> ..	52-100
Cross Examination by Mr. Guild.....	101
Hearing Exhibit 3 marked for identification [Offer of Proof].....	108
Examination by Commissioner Randall.....	166
Examination by Commissioner Elam.....	168
Examination by Commissioner Hamilton.....	177
Examination by Commissioner Howard.....	180
Examination by Vice Chairman Whitfield.....	191
Examination by Commissioner Fleming.....	199
Examination by Chairman Hall.....	208
Redirect Examination by Mr. Burgess.....	211
<i>Witness stood aside</i>	212
<i>Witness excused</i>	741

Please note:

- Volume 1 (7/21/15) comprises pages 1-303 (page numbers 304-349 were not utilized).
- Volume 2 (Public Night Hearing of 7/21/15) comprises pages 350-393
- Volume 3 (7/22/15) comprises pages 394-743

P R O C E E D I N G S

CHAIRMAN HALL: Thank you. Be seated. Good morning, everyone. We'll call the hearing to order and ask Mr. Butler to read the docket, please.

MR. BUTLER: Yes, thank you. Madam Chair and other members of the Commission, this is Docket No. 2015-103-E, the Petition of South Carolina Electric & Gas Company for updates and revisions to schedules related to construction of a nuclear base-load generation facility in Jenkinsville, South Carolina.

On March 12, 2015, the company filed a Petition with the Commission seeking an order approving an updated construction schedule and capital cost schedule for Units 2 and 3 –

CHAIRMAN HALL: Mr. Butler, if you could get a little bit closer to that mic.

MR. BUTLER: Oh, okay, sorry – [indicating]. Hello.

COMMISSIONER FLEMING: Now we can hear you.

MR. BUTLER: Okay, there we go. Thank you.

CHAIRMAN HALL: Thank you.

MR. BUTLER: Okay. Anyway, on March 12, 2015, the company filed a Petition with the Commission seeking an order approving an updated construction

1 schedule and capital cost schedule for Units 2 and
2 3 of the V.C. Summer Nuclear Plant.

3 Please take notice that a hearing on this
4 matter is scheduled to begin on Tuesday, July 21,
5 2015, at 10:30 a.m., before the Commission in the
6 Commission's hearing room at 101 Executive Center
7 Drive, Saluda Building, Columbia, South Carolina,
8 for the purpose of receiving testimony and evidence
9 from all interested parties.

10 Madam Chair and other members of the
11 Commission, the docket is in order.

12 **CHAIRMAN HALL:** All right. Thank you, Mr.
13 Butler.

14 And if we can do appearances, who appears for
15 South Carolina Electric & Gas?

16 **MR. BURGESS:** Good morning, Madam Chairman,
17 and members of the Commission. My name is Chad
18 Burgess and I'm corporate counsel for SCE&G. And
19 with me today is Matthew Gissendanner; he is also
20 corporate counsel for the company. Our two outside
21 lawyers are with us, as well: Mr. Mitchell
22 Willoughby, of the law firm of Willoughby & Hoefer;
23 and Belton Zeigler, from Womble Carlyle. It's our
24 pleasure to appear before you today and we
25 appreciate this opportunity to allow us to present

1 the company's case.

2 **CHAIRMAN HALL:** All right. Thank you,
3 gentlemen.

4 And we have excused CMC Steel/South Carolina,
5 represented by Damon Xenopoulos and Charles
6 Terreni.

7 Who appears for South Carolina Energy Users
8 Committee?

9 **MR. ELLIOTT:** Madam Chair, I'm Scott Elliott.
10 I'm here on behalf of the Energy Users.

11 **CHAIRMAN HALL:** Okay. Thank you.
12 And for Sierra Club?

13 **MR. GUILD:** Madam Chair, Robert Guild, for
14 Sierra Club. Good morning.

15 **CHAIRMAN HALL:** Okay. Thank you.
16 And for ORS?

17 **MS. HUDSON:** Good morning, Madam Chair,
18 members of the Commission. I'm Shannon Hudson.
19 With me is Jeff Nelson. We're here on behalf of
20 the Office of Regulatory Staff.

21 **CHAIRMAN HALL:** Thank you.

22 And do we have any members of the public who
23 wish to be heard at this time?

24 **MR. RICHARDSON:** Yes, ma'am, we do. I'm just
25 signing them up.

1 **CHAIRMAN HALL:** I'm sorry, Mr. Richardson, let
2 me just – thank you [indicating]. And we'll get to
3 the public witnesses in one second.

4 And if we can hear about the settlement
5 agreement at this time?

6 **MS. HUDSON:** Good morning, again, Madam Chair.
7 Maybe I should –

8 **CHAIRMAN HALL:** Yeah, maybe go – yeah, go to
9 this microphone.

10 **MS. HUDSON:** [Indicating.] Good morning
11 again. Can everyone hear me okay?

12 **CHAIRMAN HALL:** Yeah. Thank you.

13 **MS. HUDSON:** On June 29th, a settlement
14 agreement was filed in this docket. It is signed
15 by the South Carolina Energy Users Committee, the
16 Office of Regulatory Staff, and SCE&G.

17 In the settlement agreement, SCE&G agrees to
18 reduce its return on equity for revised rates
19 purposes from 11 percent to 10.5 percent beginning
20 in 2016. If the Commission approves this
21 settlement agreement, as I said earlier, it would
22 begin with the 2016 revised rates filing and
23 continue until the units are complete.

24 The settlement agreement also notes the
25 guiding statute for review of SCE&G's modification

1 request. That statute is 58-33-270(E). That
2 statute states: As circumstances warrant, the
3 company may petition the Commission for
4 modification of its Base Load Order for changes to
5 schedules, estimates, findings, or conditions. The
6 statute continues to state that the Commission
7 shall grant the relief requested if the evidence of
8 record justifies a finding that the changes are not
9 the result of imprudence on the part of the
10 utility.

11 I want to state that sentence again. The
12 Commission shall grant the relief requested if the
13 evidence of record justifies a finding that the
14 changes are not the result of imprudence on the
15 part of the utility.

16 I wanted to read that statement twice because
17 that's the guiding standard that ORS used in its
18 review. In its review, ORS found no evidence of
19 imprudence on the part of the utility. With that
20 conclusion, along with the reduction of the return
21 on equity and the support of several parties to the
22 settlement agreement, ORS believes the settlement
23 agreement is in the public interest and
24 respectfully requests that the Commission approve
25 it.

1 Madam Chairman, if it's appropriate at this
2 time, we would ask that the settlement agreement
3 and its two hearing exhibits be entered into the
4 record as the first hearing exhibit in this matter.

5 **CHAIRMAN HALL:** Okay, thank you. The
6 settlement agreement will be Hearing Exhibit No. 1,
7 with the two corresponding exhibits.

8 [WHEREUPON, Hearing Exhibit No. 1 was
9 marked and received in evidence.]

10 Okay. And Mr. Butler will begin calling
11 witnesses.

12 **MR. BUTLER:** Yes, thank you. Madam Chairman,
13 other members of the Commission, good morning.

14 In just a moment, I'm going to call the names
15 of the public witnesses who will speak. I wanted to
16 give you a couple of preliminary instructions
17 first, if I could. Please, when I call your name,
18 if you will proceed to the table here in front
19 [indicating], you'll be sworn at that time. If you
20 will, give your name and address for the court
21 reporter, so we know who you are. Be sure and cut
22 on one of the microphones there on the table, so
23 that everyone can hear you. And after you give
24 your statement, please remain at the table, so that
25 you'll be available for questions that the parties

1 or the Commissioners may have for you.

2 We have placed a time limit of three minutes
3 on all presentations. And as you can see, we do
4 have a timer that will aid you in timing your
5 testimony. We have a timer set to sound off at the
6 end of the three minutes.

7 I did want to remind everyone that this
8 hearing is your time to testify with regard
9 to the South Carolina Electric & Gas proposal, but
10 due to the judicial nature of this proceeding, the
11 Commissioners cannot take questions and are
12 prevented from making any comments on any
13 testimony. The Office of Regulatory Staff and the
14 company will be available later for any questions
15 that you might have.

16 So now that I've filled you in on the details,
17 I'll be calling the names of the witnesses who have
18 signed up to speak today.

19 The first witness that I have listed is Mary
20 Anderson. Would you come forward, please, ma'am?

21 [Witness affirmed]

22 THEREUPON came,

23 **M A R Y A N D E R S O N ,**

24 who, having been first duly affirmed, testified as follows:

25 **WITNESS:** I am not doing a formal testimony.

Docket 2015-103-E *South Carolina Electric & Gas Co.*
Nuclear Construction Updates and Revisions

12

1 I am just speaking as a customer of SCE&G, which
2 means "South Carolina Electric & Gas"; that's just
3 what I'm going to use.

4 So, I did this in the form of a letter to the
5 Commissioners, the Public Service Commissioners,
6 regarding the South Carolina Electric & Gas's
7 recent request for a rate increase. So, should I
8 just read my letter?

9 To the Commissioners: The Public Service
10 Commission – can you hear me okay? – should not
11 approve SCE&G's latest request for a rate increase.
12 According to *The State* Newspaper, if approved, this
13 2.8 percent rate increase will affect 700,000 South
14 Carolinian customers and would be the seventh rate
15 hike due to cost overruns in construction of two
16 new nuclear plants at the V.C. Summer generating
17 station. Also, it has been reported that SCE&G has
18 exhausted its financial cushion, is overbudget, and
19 still years away from commercial operation.

20 Guess who they will keep sticking the costs
21 to. Right, the customers.

22 Electricity, like water, should not be taxed,
23 nor should captive customers be responsible for
24 corporate utility companies' cost overruns or
25 corporate management mistakes. Electrical power

VOL 1 OF 3 - 7/21/15

1 and water are absolute necessities to life in our
2 modern world and should be affordable to the
3 poorest, as well as to those that are able to
4 absorb unrelenting, punishing cost increases.

5 A July 16th *Lexington Chronicle* article stated
6 that a 2013 Electric Power Rate Survey of four
7 South Carolina power companies showed that SCE&G
8 customers pay higher rates. Why? The law in South
9 Carolina allows South Carolina Electric & Gas to
10 charge its customers whatever they can convince the
11 Public Service Commission to allow. Despite the
12 disparity in electric rates, SCE&G is requesting
13 another rate of 2.8 percent.

14 I illustrate how much a residential customer
15 is billed by SCE&G. My invoice total for July 22,
16 tomorrow, is \$41.85. Of that amount, only \$25.65
17 is for actual electric use, which I used in 30
18 days. So, only 61 percent of my electric bill
19 represents electricity usage. That means 39
20 percent pays for basic facilities charge, 5 percent
21 franchise fee to the Town of Lexington, and
22 subdivision lighting for the parking lot that is
23 not my responsibility. No matter how frugal I am,
24 using electricity, I am charged that 39 percent,
25 which I believe is picking my pocket, because I

1 reap no benefit from it.

2 For SCE&G, with the State's approval, to
3 continue to extort money from its customers to
4 cover its corporate financial obligations –

5 [3-minute bell]

6 – may be legal in South Carolina, but it
7 certainly is not ethical. So I am urging the
8 Public Service Commission to deny SCE&G's latest
9 request for a rate hike. The taxpayer/customer of
10 monopolist electric power companies needs
11 protection from the likes of SCE&G. Thank you.

12 **CHAIRMAN HALL:** Thank you, Ms. Anderson. If
13 you can just stay seated.

14 Do any of the parties have any questions for
15 Ms. Anderson?

16 **MR. BURGESS:** No questions.

17 **CHAIRMAN HALL:** All right. Commissioners, any
18 questions for Ms. Anderson?

19 [No response]

20 Okay. Thank you, Ms. Anderson. You may
21 return to your seat.

22 [WHEREUPON, the witness was excused.]

23 **MR. BUTLER:** I'd like to call Coretta Bedsole.
24 Ms. Bedsole?

25 [Witness affirmed]

1 THEREUPON came,

2 **C O R E T T A B E D S O L E ,**
3 who, having been first duly affirmed, testified as follows:

4 **WITNESS:** Coretta Bedsole. 177 King Charles
5 Road, Columbia, South Carolina 29209.

6 Madam Chairman and Commissioners, as I
7 mentioned, my name is Coretta Bedsole, and I have
8 been an SCE&G customer since 1985. I also serve as
9 the advocacy director for AARP/South Carolina. I
10 would like to thank you for the opportunity to
11 speak to you this morning and for your work in
12 scheduling a second public hearing this evening, so
13 that consumers have an opportunity to share their
14 concerns.

15 AARP is a nonprofit organization that helps
16 people over the age of 50 exercise independence,
17 choice, and control in ways beneficial to
18 themselves and to society as a whole. We have
19 590,000 members in South Carolina, many of whom are
20 SCE&G electric consumers.

21 Customers over 50 are particularly vulnerable
22 to increases in energy prices, as they, on average,
23 devote a higher percentage of their household
24 spending on residential energy. AARP/South
25 Carolina wishes to convey concerns about proposals

1 to increase electric rates on residential consumers
2 for a power plant project that has consistently run
3 behind schedule and experienced cost overruns. We
4 ask that you please consider the welfare of
5 residential consumers and protect their interests
6 by exercising your full authority under current
7 law.

8 Specifically, we ask you, the Commission, to
9 conduct a full review of the V.C. Summer project,
10 similar to a review that was conducted by the
11 Georgia Public Service Commission regarding Georgia
12 Power's nuclear power plant project.

13 We also respectfully ask the Commission to
14 determine if this current process for financing
15 power plants remains the most economic path towards
16 an affordable energy future for South Carolina.
17 AARP's concern is that the current law seems to
18 limit the Commission's authority to rein in cost
19 overruns once a project has received initial
20 approval.

21 SCE&G has been allowed to charge an 11 percent
22 corporate-profit return on equity, or ROE, to
23 consumers through this prepayment plan. A
24 settlement has been proposed that would lower that
25 profit to 10.5 percent. However, that amount is

1 still higher than the corporate profit allowed for
2 all of SCE&G's current other investments, which
3 runs roughly 10.2 percent. The ROE percentages
4 awarded by other state utility commissions around
5 the country in 2015 have averaged much lower than
6 10.5 percent. When a project is shielded from risk
7 through prepayments from consumers, it is actually
8 less risky for the company. The return should
9 reflect this lower risk.

10 Prior to coming to AARP, for 15 years I was a
11 small business owner. If I had received this high
12 a return on investment with no risk, my business
13 would've thrived, and hopefully now I would've been
14 retired in the South of France rather than spending
15 this warm day with you guys.

16 [Laughter]

17 The best method of ensuring prudent and
18 reasonable construction practices is to make the
19 utility financially responsible for avoiding cost
20 overruns.

21 For the record, AARP is not anti-nuclear.

22 [3-minute bell]

23 Thank you, Commissioners, and I have written
24 comments, if you would like those submitted.

25 **CHAIRMAN HALL:** Okay. Thank you, Ms. Bedsole.

1 Do any of the parties have any questions for
2 Ms. Bedsole?

3 [No response]

4 Okay. Commissioners, any questions?

5 [No response]

6 All right. Thank you, Ms. Bedsole.

7 **WITNESS:** Thank you for the opportunity to be
8 heard.

9 [WHEREUPON, the witness was excused.]

10 **MR. BUTLER:** I'd like to call Jon Gilligan.

11 **MS. GILLIGAN:** You did say "Jan," didn't you?

12 **MR. BUTLER:** Jan. I'm sorry.

13 **VOICE:** He said "Jon."

14 **MS. GILLIGAN:** Did you say "Jan"?

15 **MR. BUTLER:** Yes, ma'am, that's you, I
16 believe.

17 **CHAIRMAN HALL:** Okay. We'll make Ms.
18 Bedsole's comments Hearing Exhibit No. 2.

19 [WHEREUPON, Hearing Exhibit No. 2 was
20 marked and received in evidence.]

21 [Witness affirmed]

22 THEREUPON came,

23 **J A N G I L L I G A N ,**

24 who, having been first duly affirmed, testified as follows:

25 **WITNESS:** Jan Gilligan. I'm a St. Andrews

1 resident, Columbia, South Carolina. And I have
2 been here before this Commission – I think we have
3 some new faces, but at least two or three times.
4 And I think you can tell I'm a senior. I earned
5 it. The Good Lord still wants me here. But, you
6 know, if you keep pricing us out, we're going to
7 starve to death. And so I am trying to figure out
8 – and I'm certainly glad that AARP is making a
9 presence, and I wouldn't even have known – I think
10 you folks are supposed to see to it that us
11 customers in South Carolina – or Columbia, anyway –
12 about this hearing, get to know about it. And if
13 it hadn't been for this article in the *Free Times*,
14 I wouldn't even know that you all were going to be
15 here today. Because you're supposed to put it
16 [indicating] in my billing. I've gotten it before
17 in my billing. You keep telling me about all these
18 little things you're going to do about raising my
19 rates, but for some odd reason – I don't know
20 whether you're discriminating against me now
21 because I've been here for two or three times, but
22 you're not telling me about this hearing. Now I
23 want to know what's happening there. Okay,
24 Commission? And Regulatory Staff? Yes, I've
25 talked with Chad many times. It's the first time

1 I've seen him in person here. He knows who I am
2 now.

3 And – but anyway, you know, looking at these
4 bills, I went through these last night. Do you
5 realize that even though you're frugal,
6 ultraconservative on energy, period, and utilities,
7 period – electric is just one of them. When they
8 built our community in Willow Winds, I'm
9 understanding that that was the thing, to have an
10 "electric community." Well, I was just talking
11 with a lady that she's got some gas. Well, good
12 for her. I was raised with that. But even so,
13 this electric certainly isn't saving us anything,
14 and it keeps going up, up, up. All right. Get
15 with the 21st century here. I mean, after all,
16 we've got solar, we've got wind. South Carolina is
17 good for the sunshine. We're almost as good as
18 California with this sunshine. Take advantage of
19 it. We've got this wind power. Take advantage of
20 it. All this money you're dumping in – and I do
21 mean dump. It's been too many years. What is it,
22 seven years? – dumping into this plant in
23 Jenkinsville – I've seen it, by the way. I've been
24 in it, by the way. And instead of that happening,
25 it needs to be discontinued, and it needs to go

1 where 21st-century thinking is, and that is in
2 solid waste, solar energy, wind power. Get with
3 the program and stop raising all these rates to us
4 poor, especially, seniors. You know, seniors
5 don't –

6 [3-minute bell]

7 They're not making money anymore. We are not
8 money pots.

9 **CHAIRMAN HALL:** Thank you, Ms. Gilligan. If
10 you could just stay seated – Ms. Gilligan?

11 **WITNESS:** Oh.

12 **CHAIRMAN HALL:** I'm sorry. If you don't mind,
13 please, just staying seated in case any parties or
14 the Commissioners have questions for you.

15 Parties, any questions for Ms. Gilligan?

16 **MR. BURGESS:** No, ma'am, no questions.

17 **CHAIRMAN HALL:** All right. Commissioners?

18 [No response]

19 All right. Thank you, Ms. Gilligan.

20 [WHEREUPON, the witness was excused.]

21 **MR. BUTLER:** I'd like to call Russell
22 D'Arensbourg. I may not have pronounced that
23 right, but if you can correct me, sir, that'll be
24 fine.

25 **MR. D'ARENSBOURG:** That was close enough.

1 **MR. BUTLER:** Thank you, sir.

2 **MR. D'ARENSBOURG:** That was a hard act to
3 follow.

4 [Witness affirmed]

5 THEREUPON came,

6 **R U S S E L L D ' A R E N S B O U R G ,**
7 who, having been first duly affirmed, testified as follows:

8 **WITNESS:** Russell D'Arensbourg. 3304 Wilmot
9 Avenue, Columbia, 29205.

10 I'd like to agree with everything that this
11 lady [indicating] said.

12 Here we are again. How many times – this is
13 not a question for anyone; it's a rhetorical
14 question. How many times are we going to come back
15 for this, one rate increase after another? Where
16 will it end?

17 It seems – it's been my impression that in
18 most places they're getting rid of nuclear, and
19 here we are building one. I don't think that SCE&G
20 has given enough thought to conservation and, of
21 course, wind energy and solar. How many wind
22 turbines would \$10 billion build? Or is it \$11
23 billion now?

24 That's about all I have to say.

25 **CHAIRMAN HALL:** Okay. Thank you, Mr.

1 D'Arensbourg.

2 Do any of the parties have questions of Mr.
3 D'Arensbourg?

4 **MR. BURGESS:** No questions.

5 **CHAIRMAN HALL:** Okay. Commissioners?

6 [No response]

7 Okay. Thank you, Mr. D'Arensbourg.

8 [WHEREUPON, the witness was excused.]

9 **MR. BUTLER:** I'd like to call Ms. Pamela
10 Greenlaw.

11 [Witness affirmed]

12 THEREUPON came,

13 **P A M E L A G R E E N L A W ,**

14 who, having been first duly affirmed, testified as follows:

15 **WITNESS:** My name is Pamela Greenlaw. I live
16 at 1001 Wotan Road, Columbia, South Carolina 29229.

17 I have some comments that are actually for the
18 public, and comments for you. I'm going to start
19 with the ones for the public, first.

20 Basically, by the time the Public Service
21 Commission dockets are scheduled, the investor-
22 owned SCE&G has already signed whatever agreements
23 are necessary with Westinghouse. The ink is dry.
24 They've already worked with suppliers. They've
25 worked with the ORS. And so we know that the

1 Public Service Commission is going to approve
2 whatever the ORS recommends. That is a given. The
3 ORS does the legal legwork, checking the claims,
4 numbers, assisting parties in reaching compromises,
5 and they forge binding agreements.

6 The settlement agreements to which Ms. Hudson
7 already referred are among only the parties – the
8 petitioning party and the official intervenors –
9 who want to sign onto the agreement. Intervenors
10 who do not agree with the agreement are given short
11 shrift in any and all consideration by the ORS in
12 its recommendations to you [indicating].

13 And so what I'm going to ask the Commission to
14 do is to add onto what AARP would like to see. I
15 believe that you do have the ability to ask ORS to
16 return to examine numbers, if necessary. They can
17 return to study ways that SCE&G themselves can bear
18 more of the financial burden and not have to burden
19 the public with asking for too many incr- – too
20 much in their increases.

21 Ms. Hudson referred to imprudence. The
22 allowance of cost overruns is an imprudence. The
23 Lake Charles debacle drags on and on and on. In
24 most sound businesses, failing and incompetent
25 contractors are fined or they are fired, but that

1 doesn't seem to have occurred. It could be part of
2 the confidentiality of information that SCE&G asks
3 for, but I don't know.

4 The original – my original order, that I had
5 written when I intervened at the outset of this
6 whole thing, was that they build one plant and that
7 they have a second gas peaking plant. Well, that
8 is exactly what Santee Cooper is doing. They were
9 going to own 45 percent of this plant, and, well,
10 now, guess what they want to build. A gas plant.
11 And that was all from evidence that was presented
12 at the original.

13 I would like to ask the Public Service
14 Commission to charge SCE&G and ORS to work together
15 to secure an independent review of SCE&G's own
16 energy efficiencies in its current energy plants
17 and in each and all of its operations centers.
18 Where energy efficiencies are discovered to be able
19 to put into place, I suggest that the savings go
20 into paying for this nuclear plant.

21 [3-minute bell]

22 Okay. All right. Well, thank you very much,
23 and I will write this out later for you and submit
24 it at another time. Thank you for your indulgence.

25 **CHAIRMAN HALL:** Thank you, Ms. Greenlaw. If

1 you can just stay seated, please.

2 **WITNESS:** Oh, yes. I'm sorry.

3 **CHAIRMAN HALL:** Any of the parties have any
4 question?

5 **MR. BURGESS:** No questions for Ms. Greenlaw.

6 **CHAIRMAN HALL:** All right. Commissioners?

7 [No response]

8 Okay. Thank you so much, Ms. Greenlaw.

9 **WITNESS:** Thank you.

10 [WHEREUPON, the witness was excused.]

11 **MR. BUTLER:** I'd like to call Sandra Wright.

12 [Witness affirmed]

13 THEREUPON came,

14 **S A N D R A W R I G H T ,**

15 who, having been first duly affirmed, testified as follows:

16 **WITNESS:** My name is Sandra Wright. I'm from
17 313 North Stonehedge, 29210.

18 I'm going to start by saying I want – I
19 request that you deny this money going to SCE&G.
20 This is the second time I've come here to request,
21 and I am going to make this statement. This is how
22 I feel you are, because I feel that each and every
23 one of you is a stockholder in SCE&G and probably a
24 prominent stockholder in SCE&G. So you are not
25 speaking for me when you make your votes. I am the

1 public. You are the Public Service Commission. I
2 don't feel you are voting for me. You are not
3 listening to me. You are supposed to be my voice,
4 but you are not.

5 Why are we building a nuclear site? Three
6 Mile Island wasn't enough? Chernobyl's not enough?
7 Look at these people that have them. They're
8 asking us to store their nuclear waste, and we are
9 making something that's going to make more?

10 South Carolina has a large coast. We're not
11 using the water. We're not using the sunshine that
12 we have. Washington State's under all kinds of
13 clouds. We have sunshine two-thirds of the year.
14 Why aren't we using it? We need to go to solar.
15 I'm not talking wind turbines, because those become
16 expensive. And I'm talking about solar not through
17 SCE&G, because you will be tying us again to
18 somebody who wants us to pay for the rights to use
19 the solar panels, and then they're going to say,
20 "Well, now, you're paying us for this, but we want
21 you to pay to work this stuff up, to make it"?
22 When I make something – I'm a screen printer, and
23 I'm an artist. When I make something, I don't tell
24 this person that's going to buy my item, "Well, buy
25 my item. But, now, after you pay for it, I want

1 you to pay me for the frame I put it in. I want
2 you to pay me for my paint. I want you to pay me
3 for everything that I've got in it, beyond what I
4 charged you." When you charge me, SCE&G, for my
5 electric, I'm assuming you have your costs in that;
6 that's why you're charging me the rate you are.

7 And I know we have a lot of suits in here. At
8 this meeting – the last meeting I was at, all of
9 SCE&G was over here [indicating]; all the public
10 was over here [indicating]. I made some mention
11 about it. I don't know if that had anything to do
12 with why they're a little scattered today, or not.
13 But I know that I'm tired of you all giving them –
14 they come in and they say, "I want 13 percent," and
15 you give them eight. They know they're going to
16 get eight before they come in here, but it's to
17 placate me, to make me think you've done me a
18 favor. You've done me no favors. When I pay my
19 electric bill, I'm assuming I'm paying for the
20 electric, which means that fee should include every
21 cost they have to make that electricity available
22 for me, not the electricity and then this and then
23 this and then this. And now you're asking for more
24 money for a –

25 [3-minute bell]

1 I'm angry. I'm really angry. And I don't
2 feel you are working for me. I said the same thing
3 the last time I was here, and I can feel my face
4 going red because I'm angry.

5 **CHAIRMAN HALL:** Thank you, Ms. Wright.
6 Parties, any questions for Ms. Wright?

7 [No response]

8 Commissioners, any questions?

9 [No response]

10 **WITNESS:** I know there won't be any questions
11 from this side [indicating]. They don't want to
12 face anything.

13 **CHAIRMAN HALL:** Thank you, Ms. Wright.

14 [WHEREUPON, the witness was excused.]

15 All right. I think that concludes our public
16 witnesses, so, Mr. Burgess, whenever you are ready
17 to begin.

18 **MR. BURGESS:** SCE&G calls Kevin Marsh to the
19 stand.

20 **CHAIRMAN HALL:** Thank you. Come forward, Mr.
21 Marsh.

22 **MR. GUILD:** Madam Chair?

23 **CHAIRMAN HALL:** I'm sorry. Mr. Guild?

24 **MR. GUILD:** With the Commission's indulgence,
25 I have an opening statement I'd like to make.

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CHAIRMAN HALL: Okay. Okay, I'm sorry.

Mr. Burgess, we will begin with Mr. Guild's opening statement.

MR. GUILD: Good morning, Madam Chair, members of the Commission. I'm Robert Guild, on behalf of the Sierra Club.

Let me first tell you that we view this case as a tale of hostage-taking. The company, in essence, tells us that they explained all the risks of building this novel, new-design, first-of-its-kind, one-of-only-two-in-the-country nuclear plant. They told us the risks of all of the economies they promised us. And now they say we put a gun to their head and forced them to build it, facing those risks. Then they say that Wall Street has put a gun to their head and, if we don't give them everything they ask for in this extraordinary cost overrun, that they will not be able to complete the plant we forced them to build in the first place. They won't be able to finance it; they won't be able to complete construction. And, in turn, they put a gun to the ratepayers' head and said, "You put us in this position, and now you must pay." The company's president says that, literally, it will be impossible to finance completion of this

1 plant if you don't give them every dime they claim
2 they need to finish the job.

3 We say that's not what the Base Load Act
4 purports to do, because, as interpreted by our
5 Supreme Court, it requires you to represent not
6 only their interests, as stockholders and as a
7 regulated utility, but the interests of ratepayers
8 and to protect ratepayers against imprudent utility
9 management decisions, and that is precisely what
10 you face today. Will we have the intestinal
11 fortitude to recognize imprudent misjudgments by
12 this management now, and hold management
13 accountable, or will we continue to shift all risks
14 to ratepayers? Now is the time to make that
15 choice.

16 We believe the record evidence in this case
17 presented by the company's own witnesses
18 demonstrate irrefutably that they made a bad gamble
19 at our expense. And in anybody's book, that
20 represents imprudence. If this were a marketplace
21 decision by unregulated entities, they would go
22 bankrupt and bear the costs of their bad decision-
23 making. You should hold them accountable to no
24 lower standard than the free market would hold a
25 company under similar circumstances.

What are the stakes? \$1.1 billion in cost increases in simply this increment. Now, that's not in the fake 2007 dollars; that's in the dollars that customers will actually bear. \$1.1 billion. Thirty-eight months and 11 days' additional delay, delay beyond the completion date that they initially promised us. And we have four years yet to go in constructing this plant. Tell me we will not experience yet additional delays, yet additional postponements of the substantial completion date of this plant.

As of today, on this Application, they have missed the mark of completing this plant by 45 percent. That is what this extended completion date represents. Any business that misjudges the effectiveness of their construction by that magnitude in the marketplace would be held accountable. These people should expect no less.

We're offered a settlement by ORS they tell us represents approximately \$15 million total lifetime benefit to ratepayers. \$15 million. But that compares with the \$677 million in incremental revenue requirements that are on the table today, given SCE&G's pending rate increase reflecting passing on the current and expected financing costs

1 of completing this plant. \$677 million in
2 incremental revenue versus \$15 million in total
3 cost savings. A bad deal. Not – a *de minimis*
4 advantage to ratepayers, not worth the deal that is
5 proposed.

6 A brief reminder of why my clients, the Sierra
7 Club, care about this. As we've said from the
8 outset, when the initial Certificate of Public
9 Convenience and Necessity was before you, the
10 initial Base Load Application, we were vitally
11 concerned that building these first-of-a-kind two
12 nuclear units, where they are the only ones in the
13 country doing this, except for Georgia Power, would
14 crowd out the more economical, more renewable, more
15 contemporary alternatives for meeting electric
16 needs for South Carolina's customers. And that
17 reality is being borne out, as we speak.

18 South Carolina's rate is 42 out of 50 in the
19 American Council for An Energy Efficient Economy.
20 They set EEE's state energy efficiency scorecard
21 for last year, 2014: 42/50. We have some of the
22 highest electric rates and highest bills in the
23 country.

24 South Carolina average residential rates,
25 according to the United States Department of

1 Energy's Energy Information Administration, from
2 April 2015, the average residential rates in this
3 State were 13.10 cents per kilowatt-hour. Thirteen
4 point one [13.1] cents per kilowatt-hour. Those
5 rates are higher than rates in Florida, Georgia,
6 North Carolina, Virginia, Alabama, Kentucky,
7 Mississippi, Tennessee, Arkansas, Louisiana,
8 Oklahoma, and Texas, according to the EIA data for
9 April 2015. They are higher than the average
10 regional rates in the West Northcentral Region;
11 it's only 11½ cents. The South Atlantic Region,
12 11.9 cents. The East Southcentral Region, 11.27
13 cents. The West Southcentral Region, 11.46 cents.
14 The Mountain Region, 11.83 percent. And the
15 Pacific – including California – 11.21 cents.
16 Again, 13 versus 11.

17 Ratepayers are suffering already. We have the
18 opportunity to do better, but for the commitment
19 this utility has made to this very, very bad
20 investment. Mr. Marsh in his testimony says that
21 the Obama Administration's Clean Power Plan, the
22 EPA's Clean Power Plan, which they resist and
23 object to, would require a 51 percent reduction in
24 carbon emissions per unit in South Carolina, and
25 they complain because they say the V.C. Summer

1 Units 2 and 3, which are in the pipeline, are not
2 going to be included in that value. And they say,
3 if they were included, instead of 51 percent
4 reduction, we'd only have to meet a 38 percent
5 reduction in South Carolina. Now, doesn't that
6 make my point? They're saying that, by building
7 the nuclear plants, South Carolina doesn't have to
8 be as efficient as they otherwise would have to be
9 in reducing our carbon production. In other words,
10 we don't have to help our ratepayers save on those
11 power bills by doing imaginative things done all
12 over the country, like on-bill financing for energy
13 retrofits. We have some of the worst housing stock
14 in the country; we heat and cool the great
15 outdoors. And yet we will not appreciate – our
16 citizens won't appreciate the benefits of energy
17 efficiency because we are tied to these white
18 elephants.

19 Of course, as I said, the nuclear renaissance
20 has evaporated, except for us. Except for SCE&G
21 and Vogtle that Georgia Power is building. One
22 would think that we're in the same boat with the
23 Vogtle people – well, at least somebody else's
24 going to share our suffering. But wait a minute.
25 Moody's tells us, in a report comparing SCE&G and

Georgia Power that characterizes this as a transformative event for SCE&G's nuclear project, they say nuclear generation dispatch in SCE&G's service territory will go from 24 percent, before the Units 2 and 3 go on-line, to 60 percent. That many more eggs in the nuclear basket in South Carolina. Whereas, in Georgia, they go from 23 percent to 30 percent. Larger system, smaller effect on their overall generation mix. SCE&G will have a total of 26 percent capacity represented in these units; Southern Company, only 2 percent from Vogtle. Most tellingly: Moody's estimates that the average customer of SCE&G will bear a cost of \$8,300 to pay for these nuclear plants – \$8,300 per customer – compared to only \$2,000 per customer for a Georgia Power customer. Two thousand dollars [\$2,000] in Georgia; that's their share of the rock. Eight thousand three hundred dollars [\$8,300] in South Carolina. Annual rate hikes to pay for this plant in South Carolina average 3 percent; in Georgia for Vogtle, 1 percent.

So, by all measures, this is not only a bad deal for anybody building a new nuclear plant, it's a worse deal – the worst deal – in South Carolina. The *Post & Courier* in Charleston reminded us in

1 2013 we had some of the highest residential
2 electricity costs in the South – again, borne out
3 by current data – mostly due to SCE&G's rates.

4 So, we assert that the costs associated with
5 the delay are attributable to the imprudence of
6 SCE&G's utility management in making the failed
7 gamble that this new-generation nuclear power plant
8 design, using a modular construction technique,
9 would bear the efficiencies that they promised us
10 in that initial Application. And the fact that
11 they've come back with \$1.1 billion in cost
12 overruns, attributable almost exclusively to the
13 failure of that gamble, demonstrates the imprudence
14 of that choice, for which their management should
15 be held accountable.

16 They tell us that we have a gun to their head.
17 We made them do it. Mr. Byrne will tell us, "Oh,
18 we enumerated all those risks to you. We told you
19 it was going to be such a good deal to appreciate
20 the economies and efficiencies from using
21 standardized designs and advanced modular
22 construction." And why do they explain the nature
23 of these additional years of delay now? Failure of
24 the modular construction fabricators to deliver
25 acceptable product, meeting quality standards, on

1 time, as they told us that they would. Modular
2 construction has been an abject failure in
3 delivering the efficiencies that they promised us.

4 So we maintain that the costs in this
5 increment of \$698 million in 2007 dollars, that are
6 associated with delay attributable to that bad
7 management choice, should be denied as imprudent.

8 Secondly, we maintain that that increment
9 should be denied because it is not known and
10 measurable, utilizing traditional utility
11 regulatory principles. They virtually admit this.
12 Much of the cost of delay is in dispute. They
13 claim that they are actively bargaining behind the
14 scenes with the Westinghouse Consortium to have
15 Westinghouse bear substantial portions – although
16 we don't know what those portions are – of that
17 cost of delay, and that somehow they will let that
18 trickle down to us if they work it out to our
19 advantage. But I submit to you that anybody would
20 be foolish to assume that SCE&G is going to cut a
21 hard bargain for us ratepayers if you give it to
22 them in advance, if you determine up front that
23 that cost of delay is prudent. Who in their right
24 mind would go to a bargaining table, with a
25 blessing in advance in their pocket to pay whatever

the total freight is?

So I submit to you it's not known and measurable; they haven't settled the dispute. Last fall, before they formally filed this Application, they told us that they would settle the dispute before they came back to you; they would have a known dollar value of what the resolved additional costs would be, having established a bargain with Westinghouse. They haven't done it. What they tell you, instead, is there could be years of litigation before they know what the resolution will be. Now, if that isn't the definition of "speculative" and "not known and measurable," I don't know what is, under traditional regulatory principles.

Southern Bell Telephone case, 1978 – I'm one of those old guys; that was my case – "known and measurable," the principle established now as the law in South Carolina. Porter versus Public Service Commission, 1998, elaborated on what "known and measurable" means. And I submit to you that the 2010 decision in the Energy Users Committee involving the contingency fund that you approved, and that the Supreme Court said you erroneously approved, establishes the same principle when they

1 say that no speculative, un-itemized expenses can
2 be approved under the Base Load Review Act. And
3 the disputed delay costs represent precisely that:
4 speculative, un-itemized expenses.

5 Just because they tell you they've got to pay
6 some of that up front, under the bad contract that
7 they signed, doesn't mean that those are prudent or
8 non-speculative expenses. Utility stockholders
9 should bear those costs if, indeed, the company
10 signed a bad contract, and has to pay those costs
11 while they resolve the dispute.

12 But in any event, until they resolve that
13 dispute and we know what those are, they are not
14 known and measurable, and you shouldn't approve
15 them. So it's not prudent, not known and
16 measurable.

17 Finally, we believe that the rate of return on
18 equity that was in the initial Application of 11
19 percent, and the 10.5 percent that is the subject
20 of the proposed settlement agreement – to which
21 Sierra is not a party – represent excessive,
22 unreasonable returns. As one of the public
23 witnesses asserted, it makes no sense when the Base
24 Load Review Act guarantees them to recover the
25 costs of the plant – even if they cancel it, even

1 if they abandon it – it makes no sense to give them
2 an incrementally higher rate of return on the
3 nuclear investment when it is insulated from the
4 normal ratemaking requirement to go on-line, to be
5 a plant in service before they're able to charge
6 ratepayers.

7 We submit that if, indeed, their current
8 return on equity generally is 10.25 percent, then
9 10.5 is *ipso facto* excessive. We understand that
10 the prevailing return on equity for utilities
11 similarly situated is lower still around the
12 country. Of course, that same Southern Bell case
13 makes the point that we have to look at that range
14 of reasonableness for establishing a rate of return
15 when considering comparable returns of similarly
16 situated companies. And, in that case, you've
17 established a range of return for a telephone
18 utility and you said if they were efficient and
19 they applied their efficiencies to their
20 operations, they could themselves earn the higher
21 end of that range of rate of return, and that is an
22 incentive to make them efficient. I submit to you
23 that lowering the rate of return beyond the level
24 established in the settlement agreement is the
25 minimum you should do to encourage the company to

1 exercise efficiencies.

2 Madam Chair, members of the Commission, I look
3 forward to an opportunity to examine the witnesses
4 and to speak further on these matters, but I submit
5 to you that, on the basis of the evidence of this
6 case, you should reject the Application that's been
7 submitted to you, for the reasons I've stated.

8 Thank you.

9 **CHAIRMAN HALL:** Thank you, Mr. Guild.

10 Okay. Now, Mr. Burgess.

11 **MR. BURGESS:** SCE&G calls Kevin Marsh to the
12 stand.

13 [Witness affirmed]

14 THEREUPON came,

15 **K E V I N B . M A R S H ,**

16 called as a witness on behalf of the Petitioner, South
17 Carolina Electric & Gas Company, who, having been first duly
18 affirmed, was examined and testified as follows:

19 **DIRECT EXAMINATION**

20 **BY MR. BURGESS:**

21 **Q** Mr. Marsh, would you please state your name for the
22 record?

23 **A** My name is Kevin Marsh.

24 **Q** By whom are you employed and in what capacity?

25 **A** I'm employed by SCANA Corporation. I'm the chief

1 executive officer.

2 **Q** And did you prepare or cause to be prepared under your
3 direct supervision 49 pages of direct testimony that's
4 been prefiled in this docket?

5 **A** I have.

6 **CHAIRMAN HALL:** Mr. Burgess, could you pull
7 that microphone closer? I don't think everybody
8 can hear you.

9 **BY MR. BURGESS:**

10 **Q** Mr. Marsh, were there any changes or corrections
11 required of your testimony?

12 **A** I have three small changes, and I'll be glad to
13 highlight those.

14 **Q** Would you please indicate the page number and line
15 number for those corrections that are required?

16 **A** The first one would be on page 17 at the bottom of the
17 page. On line seven, there's a parenthetical there that
18 starts "Approximately one-half of the Alternative
19 Resources..." Right after the opening parenthetical
20 should be inserted "In 2019-2021." So it should read
21 "In 2019-2021 approximately one-half of the Alternative
22 Resources..." on that line seven.

23 The next change is on page 25. On line three,
24 after the word "does" the word "the" should be inserted
25 between "does" and "company's." And on line four, the

1 word "stands" should be "stand"; eliminate the "s" from
2 "stands."

3 The final change is on page 46, line nine. The
4 words "as the" should be replaced with the word "for."
5 So that line would read "schedules for BLRA purposes."

6 That would be all the changes I have.

7 **Q** Mr. Marsh, subject to those edits in your prefiled
8 direct testimony, if I asked you all the questions
9 contained in your testimony, would your answers be the
10 same?

11 **A** Yes, they would.

12 **MR. BURGESS:** Madam Chairman, at this time, we
13 would move into the record the prefiled direct
14 testimony of Kevin Marsh as if given orally from
15 the stand.

16 **CHAIRMAN HALL:** All right. Mr. Marsh's
17 testimony will be entered into the record as if
18 given orally.

19 *[See pgs 52-100]*

20 **MR. BURGESS:** Thank you, Madam Chairman.

21 **BY MR. BURGESS:**

22 **Q** Mr. Marsh, have you prepared a summary of your direct
23 testimony?

24 **A** Yes, I have.

25 **Q** Would you please deliver that, at this time?

1 **A** I will.

2 Good morning, Madam Chairman and Commissioners.
3 SCE&G comes before the Commission today to request
4 approval of a revised construction milestone schedule
5 and revised cash flow forecast for the two new nuclear
6 units it is building in Jenkinsville, South Carolina.

7 **CHAIRMAN HALL:** Excuse me, Mr. Marsh. I'm
8 sorry. Could you pull that microphone a little bit
9 closer? I think the people in the back are having
10 some trouble hearing.

11 **WITNESS:** [Indicating.] Is that better?

12 **CHAIRMAN HALL:** Do we have – okay, we're going
13 to switch the mics out.

14 [Brief pause]

15 **WITNESS:** Is that better?

16 **CHAIRMAN HALL:** Okay. For the people in the
17 back, is that better?

18 **VOICE:** He hasn't said anything.

19 **WITNESS:** Is that better?

20 **VOICE:** Yes.

21 **CHAIRMAN HALL:** Okay.

22 **VOICE:** Not much.

23 **WITNESS:** Not much? It sounded like it was
24 better with this one [indicating]. Can you hear me
25 with this one at all?

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VOICE: Yes.

CHAIRMAN HALL: Okay, that's good.

WITNESS: I'll start over.

SCE&G comes before the Commission today to request approval of a revised construction milestone schedule and a revised cash flow forecast for the two new nuclear units it is building in Jenkinsville, South Carolina. This is the third BLRA update proceeding since the Commission initially approved the project in 2008. At that time, SCE&G provided the Commission with a detailed overview of the risks and challenges of building a nuclear plant. We showed that the benefits to our customers from new nuclear capacity far outweighed the risk and challenges.

We are currently approximately seven years into the project, and the benefits from this project still far outweigh the risk. Capital costs have increased by approximately \$712 million, or about 15 percent, since 2008. At the same time, based on current schedules and forecasts, escalation on the project has declined by \$214 million, the financing costs on the debt to construct the units has declined by approximately \$1.2 billion, and the projected benefit for federal

1 production tax credits, which we will pass directly
2 to customers, has increased by approximately \$1.2
3 billion. The impact of these savings can be
4 expected to offset the impact to customers of the
5 initial – excuse me – of the increase in capital
6 costs since 2008.

7 In addition, the benefits to our customers
8 from new nuclear capacity still far outweigh the
9 risks. There is no other source of non-emitting,
10 dispatchable base-load power that can replace the
11 generation represented by the units. With both
12 units in service, SCE&G will have reduced its
13 carbon emissions by 54 percent, compared to 2005
14 levels. At that time, 61 percent of SCE&G's
15 generation will come from non-emitting sources,
16 compared to 23 percent in 2014. The units will be
17 an important part of SCE&G's plan to meet CO₂
18 emissions limitations that will be required under
19 the EPA's proposed Clean Power Plan.

20 As Dr. Lynch testifies, even with today's low
21 natural-gas prices, which I believe are not
22 sustainable over the long run, completing the units
23 remains the lowest-cost alternative for meeting
24 customers' need for additional base-load generating
25 capacity.

1 Completing the units will give SCE&G a well-
2 balanced generation system with roughly equal
3 amounts of coal, gas, and nuclear capacity. If
4 SCE&G were to meet its base-load generation needs
5 by adding new natural gas generation, then fossil
6 fuels would account for approximately 75 percent of
7 SCE&G's generation in 2021, with gas alone
8 representing 48 percent of that generation. This
9 would be an unbalanced generation portfolio that
10 would also be overly subject to environmental and
11 price risks from fossil fuels.

12 Concerning the financing of the units, as of
13 March 2015, SCE&G has successfully raised
14 approximately 46 percent of the capital needed for
15 the units, or \$3.1 billion. This includes \$1.5
16 billion in first mortgage bonds issued at an
17 average interest rate of only 4.99 percent.
18 Interest rates have been locked in on approximately
19 \$1.3 billion anticipated 2015-2016 borrowings at an
20 estimated effective rate of 5.09 percent. These
21 rates have been possible because the financial
22 community has become comfortable with the careful
23 and consistent approach the Commission and ORS have
24 used in applying the Base Load Review Act.

25 We are now entering a critical period in

1 executing the financial plan. At the 36 months
2 beginning with calendar year 2015, we will need to
3 finance approximately \$2.8 billion of investment in
4 the units. During this time, SCE&G will not have
5 the option of waiting out unfavorable market
6 conditions or postponing financing if markets have
7 become skeptical of investing in the company due to
8 unfavorable financial or regulatory results.

9 During this period, it will be vitally important
10 that SCE&G maintain access to capital markets on
11 favorable terms.

12 The BLRA addresses the two principal concerns
13 of the financial markets. One is the risk of
14 regulatory disallowances for events outside the
15 company's control. Write-downs resulting from
16 disallowances have disproportionate impact on
17 investors' risks and return calculations. Under
18 the BLRA, disallowance is permitted only if changes
19 in costs or scheduled forecasts are the result of
20 imprudence by the utility. Markets are comfortable
21 with that risk.

22 The second concern is the need for revenues to
23 pay financing costs and support debt coverage and
24 other measures of creditworthiness while the
25 project is being built. The BLRA provides for

1 regular rate adjustments during construction to pay
2 financing costs. This maintains SCE&G's
3 creditworthiness while raising the necessary funds.

4 Nothing is more important to SCE&G's financial
5 plan than maintaining market confidence and the
6 continued application of the BLRA in a fair and
7 consistent way. Loss of this confidence would put
8 the financial plan for completing the units at
9 risk. In this regard, markets see the settlement
10 agreement we've entered into with ORS and the
11 Energy Users as a positive example of how the
12 regulatory process is working in a fair and
13 rational way in South Carolina. As is always the
14 case under the BLRA, revised rates are based on
15 actual payments only, not projections or forecasts,
16 or speculative costs. ORS carefully audits all
17 amounts proposed for revised rates recovery. Only
18 actual costs are included.

19 My senior management team and I are directly
20 involved in the management and oversight of the new
21 nuclear project. We deal with the issues that
22 arise with Westinghouse aggressively and at the
23 highest levels. If we stay the course with
24 construction and with regulation, the units will
25 provide reliable, non-emitting, base-load power to

1 our customers for 60 years or more.

2 It is my opinion, based on 38 years'
3 experience in this industry, that the value of the
4 new nuclear capacity under construction today
5 remains much greater than any challenges we have
6 encountered or are likely to encounter during
7 construction of the project.

8 On behalf of SCE&G, I ask the Commission to
9 approve the updated cost forecast and construction
10 schedule for the units as presented here.

11 That concludes my summary.

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23 [PURSUANT TO PREVIOUS INSTRUCTION, THE
24 PREFILED DIRECT TESTIMONY {W/CORRECTIONS} OF
25 KEVIN B. MARSH FOLLOWS AT PGS 52-100]

Please note: The change(s)/correction(s) noted herein reflect testimony given during the hearing in this matter.

DIRECT TESTIMONY

OF

KEVIN B. MARSH

ON BEHALF OF

SOUTH CAROLINA ELECTRIC & GAS COMPANY

DOCKET NO. 2015-103-E

8 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**
9 **POSITION.**

10 A. My name is Kevin Marsh and my business address is 220 Operation
11 Way, Cayce, South Carolina. I am the Chairman and Chief Executive
12 Officer of SCANA Corporation and South Carolina Electric & Gas
13 Company (“SCE&G” or the “Company”).

14 **Q. DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
15 **BUSINESS EXPERIENCE.**

A. I am a graduate, magna cum laude, of the University of Georgia, with a Bachelor of Business Administration degree with a major in accounting. Prior to joining SCE&G, I was employed by the public accounting firm of Deloitte, Haskins & Sells, now known as Deloitte & Touche, L.L.P. I joined SCE&G in 1984 and, since that time, have served as Controller, Vice President of Corporate Planning, Vice President of Finance, and Treasurer. From 1996 to 2006, I served as Senior Vice

1 President and Chief Financial Officer (“CFO”) of SCE&G and SCANA.
2 From 2001-2003, while serving as CFO of SCE&G and SCANA, I also
3 served as President and Chief Operating Officer of PSNC Energy in North
4 Carolina. In May 2006, I was named President and Chief Operating Officer
5 of SCE&G. In early 2011, I was elected President and Chief Operating
6 Officer of SCANA and I became Chairman and Chief Executive Officer of
7 SCANA on December 1, 2011.

8 **Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION BEFORE?**

9 A. Yes. I have testified in a number of different proceedings.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
11 **PROCEEDING?**

12 A. In the Petition (the “Petition”), the Company requests that the Public
13 Service Commission of South Carolina (the “Commission”) approve an
14 updated construction schedule and schedule of forecasted capital costs for
15 the project to construct V.C. Summer Units 2 & 3 (the “Units”). My
16 testimony explains the requests contained in the Petition and the value the
17 Units represent to SCE&G’s customers, to its partner, Santee Cooper, and
18 to the State of South Carolina. I discuss the importance of this proceeding
19 to SCE&G’s plan for financing the Units and how this proceeding fits
20 within the structure of the Base Load Review Act (“BLRA.”)

21 **Q. WHAT OTHER WITNESSES ARE PRESENTING DIRECT**
22 **TESTIMONY ON BEHALF OF THE COMPANY?**

1 A. The other witnesses presenting direct testimony on behalf of the
2 Company are Mr. Stephen A. Byrne, Mr. Ronald A. Jones, Ms. Carlette L.
3 Walker and Dr. Joseph M. Lynch.

4 1. Mr. Byrne is the President for Generation and Transmission
5 and Chief Operating Officer of SCE&G. His testimony reviews the current
6 status of the construction of the Units and presents the updated construction
7 schedule provided by the contractors, Westinghouse Electric Company,
8 LLC (“WEC”) and Chicago Bridge & Iron (“CB&I”) (collectively
9 “WEC/CB&I”). Mr. Byrne also testifies concerning the commercial issues
10 with WEC/CB&I related to the project.

11 2. Mr. Jones is the Vice President for New Nuclear Operations
12 for SCE&G. Mr. Jones will testify concerning change orders related to the
13 project that SCE&G has agreed to with WEC/CB&I, changes in the
14 Estimated at Completion (“EAC”) costs and changes in Owner’s cost
15 arising from the new project schedule and other matters.

16 3. Ms. Walker is Vice President for Nuclear Finance
17 Administration at SCANA. She sponsors the current cost schedule for the
18 project and presents accounting, budgeting and forecasting information
19 supporting the reasonableness and prudence of the adjustments in cost
20 forecasts. Ms. Walker also testifies in further detail concerning key drivers
21 of the changes in the Owner’s cost forecast.

1 4. Dr. Lynch is Manager of Resource Planning at SCANA. He
2 will testify concerning updated studies showing that even considering
3 historically low natural gas prices, completing the Units remains the lowest
4 cost option for meeting the generation needs of SCE&G's customers.

5 All Company witnesses testify in support of the reasonableness and
6 prudence of the updated construction schedule and the costs it represents.
7 From my knowledge of the project and my perspective as SCE&G's Chief
8 Executive Officer, I can affirmatively testify that SCE&G is performing its
9 role as project owner in a manner that is reasonable, prudent, cost-effective
10 and responsible. The other witnesses are providing similar testimony about
11 the project from their particular areas of expertise.

12 **Q. PLEASE PROVIDE AN OVERVIEW OF THE REGULATORY**
13 **HISTORY OF THE PROJECT.**

14 A. In 2005, SCE&G began to evaluate alternatives to meet its
15 customers' need for additional base load capacity in the coming decades.
16 In this evaluation, the Company took account of its aging fleet of coal-fired
17 units, the volatility in global fossil-fuel markets, and the increasingly
18 stringent environmental regulations being imposed on fossil-fuel
19 generation. In its evaluation, the Company sought proposals from three
20 suppliers of nuclear generation units. The evaluation of all alternatives
21 resulted in the Company signing an Engineering, Procurement, and
22 Construction Agreement (the "EPC Contract") with what is now

1 WEC/CB&I on May 23, 2008, after two and one-half years of negotiations.
2 On May 30, 2008, the Company filed a Combined Application under the
3 BLRA seeking review by the Commission and ORS of the prudence of the
4 project and the reasonableness of the EPC Contract. The cost schedule
5 presented to the Commission in 2008 also included a reasonable forecast of
6 owner's contingency for the project. SCE&G's share of the total anticipated
7 cost was \$4.5 billion.¹ In December 2008, the Commission held nearly
8 three weeks of hearings and took evidence from 22 expert witnesses about
9 the project, the contractors, the EPC Contract and risks of construction.

10 **Q. WHAT WAS THE RESULT OF THOSE PROCEEDINGS?**

11 A. On March 2, 2009, the Commission issued Order No. 2009-104(A)
12 approving the prudence of the project and the schedules presented by the
13 Company. The South Carolina Supreme Court reviewed the Commission's
14 determinations and ruled that "based on the overwhelming amount of
15 evidence in the record, the Commission's determination that SCE&G
16 considered all forms of viable energy generation, and concluded that
17 nuclear energy was the least costly alternative source, is supported by
18 substantial evidence." *Friends of Earth v. Pub. Serv. Comm'n*, 387 S.C.
19 360, 369, 692 S.E.2d 910, 915 (2010). In a related case, *S.C. Energy Users*
20 *Comm. v. S.C. Pub. Serv. Comm'n*, 388 S.C. 486, 697 S.E.2d 587 (2010),

¹ Unless otherwise specified, all cost figures in this testimony are stated in 2007 dollars and reflect SCE&G's share of the cost of the Units.

1 the Court ruled that costs which were not identified and itemized to specific
2 expense items—specifically, owner’s contingency costs—could not be
3 included in the Commission-approved cost schedule for the Units. In
4 denying contingencies, the Court recognized that the BLRA allows the
5 Company to return to the Commission to seek approval of updates in cost
6 and construction schedules as the Company is doing here.

7 **Q. PLEASE DESCRIBE THE COST AND SCHEDULE UPDATES**
8 **SINCE ORDER NO. 2009-104(A) WAS ISSUED.**

9 A. Since 2009, SCE&G has appeared before the Commission three
10 times to update the cost and construction schedules for the Units.

11 1. In 2009, the Commission updated the construction schedule to
12 reflect a site-specific integrated construction schedule for the
13 project which WEC/CB&I had recently completed. The 2009
14 update changed the timing of cash flows for the project, but the
15 total forecasted cost for the Units of \$4.5 billion did not change.

16 2. A 2010 update removed un-itemized owner’s contingency from
17 the cost schedule in response to the decision in *S.C. Energy*
18 *Users Comm. v. S.C. Pub. Serv. Comm’n, supra*. The Company
19 also identified approximately \$174 million in costs that
20 previously would have been covered by the owner’s contingency.
21 The approved cost of the project dropped from \$4.5 to \$4.3
22 billion.

1 3. In 2012, the Commission updated the capital cost forecasts and
2 construction schedule. The cost forecasts were based on a
3 settlement between SCE&G and WEC/CB&I for cost increases
4 associated with:

5 a. The delay in the Combined Operating License (“COL”)
6 issued by the Nuclear Regulatory Commission (the
7 “NRC”);

8 b. WEC’s redesign of the AP1000 Shield Building;

9 c. The redesign by WEC/CB&I of certain structural modules
10 to be used in the Units; and

11 d. The discovery of unanticipated rock conditions in the Unit
12 2 Nuclear Island (“NI”) foundation area.

13 The Commission also updated the anticipated schedule of Owner’s
14 cost to reflect more detailed operations and maintenance planning; new
15 safety standards issued after the Fukushima event; and other matters. The
16 2012 update also involved several specific EPC Contract change orders. It
17 increased the anticipated cost for the Units from \$4.3 billion to \$4.5 billion.
18 The Commission adopted these new schedules in Order No. 2012-884.
19 South Carolina Supreme Court affirmed that order in *S.C. Energy Users*
20 *Comm. v. S.C. Elec. & Gas*, 410 S.C. 348, 764 S.E. 2d 913 (2014).

21 **Q. PLEASE PROVIDE AN OVERVIEW OF THIS PETITION.**

1 A. In this proceeding, SCE&G seeks approval of the revised milestone
2 schedule (the “Revised Milestone Schedule”) attached to Company Witness
3 Byrne’s direct testimony as Exhibit ____ (SAB-2). The updated schedule is
4 based on information recently provided to SCE&G by WEC/CB&I. It
5 shows new substantial completion dates for Units 2 and 3 of June 19, 2019,
6 and June 16, 2020, respectively (the “Substantial Completion Dates”).²

7 SCE&G has also submitted a revised cash flow forecast for the
8 project (the “Revised Cash Flow Forecast”). That schedule is attached to
9 Company Witness Walker’s direct testimony as Exhibit No. ____ (CLW-1).
10 It shows an updated cost forecast for the Units dollars of \$5.2 billion, which
11 is an increase of approximately \$698 million, or 15%, from the costs
12 approved in Order No. 2012-884.³ Chart A, below, summarizes these
13 adjustments.

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² SCE&G has not, however, accepted WEC/CB&I’s contention that the new Substantial Completion Dates are made necessary by excusable delays. Nothing in this testimony should be taken as a waiver or abandonment of any claims SCE&G may have against WEC/CB&I. Explanations of the reasons for certain delay or cost increases should not be taken as an indication that SCE&G agrees that the associated delays or cost increases are excusable under the EPC Contract or that WEC/CB&I is not liable to SCE&G for the resulting costs and other potential damages.

³ This \$698 million is net of approximately \$86 million in liquidated damages that SCE&G intends to seek from WEC/CB&I for the delays. While WEC/CB&I disputes this claim, SCE&G does not believe that WEC/CB&I’s counter position should be recognized in determining anticipated payments to complete the project.

				Delay Cost	Non-Delay Cost	Total Cost
CHART A						
SUMMARY OF COST ADJUSTMENTS						
(millions of dollars)						
ESTIMATE AT COMPLETION (EAC) COST*						
	Associated with Delay			\$ 228.1		
	Less: Liquidated Damages			\$ (85.5)		
	Net Associated with Delay					\$ 142.6
	Not Associated with Delay					
	Other EAC Cost					
	Productivity and Staffing Ratios				\$ 154.8	
	WEC T&M Changes				\$ 27.4	
	Total: Other EAC Costs				\$ 182.2	
	Design Finalization				\$ 71.9	
	Total Not Associated with Delay					\$ 254.1
	TOTAL EAC COST ADJUSTMENT					\$ 396.7
OTHER EPC ADJUSTMENTS						
	Ten Change Orders				\$ 56.5	
	Less: Switchyard Reallocation				\$ (0.1)	
	TOTAL EPC COST ADJUSTMENT					\$ 453.1
OWNER'S COST						
	Associated with Delay			\$ 214.3		
	Not Associated with Delay				\$ 30.8	
	TOTAL OWNER'S COST ADJUSTMENT					\$ 245.1
	TOTAL ADJUSTMENT			\$ 356.9	\$ 341.3	\$ 698.2
	TOTAL ADJUSTMENT			\$ 442.4	\$ 341.3	\$ 783.8
	(Without Liquidated Damages)					
	Totals may vary due to rounding.					
	* Delay and Other EAC Costs as reported in the Petition is \$411 million. It includes (a) EAC Costs					
	Associated with Delay (\$228.1 million), and (b) Other EAC Cost (\$182.2 million).					

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Q. HOW DOES THE CURRENT ANTICIPATED COST OF THE PROJECT TO CUSTOMERS COMPARE TO THE ORIGINAL PROJECTIONS?

A. While the base capital cost of the project has increased, several components of the ultimate cost of the project to customers are projected to offset this increase:

- a. **Capital cost.** Capital costs are increasing by \$712 million in 2007 dollars compared to the amount approved in Docket 2008-196-E. The \$712 million increase reference here is different than \$698 million increase referenced in the Petition but both are correct. The total cost approved in Order No. 2012-884 was more than that approved in Order No. 2009-104(A) by approximately \$14 million. As a result the increase in anticipated costs is approximately \$698 million when compared to Order No. 2012-884 and \$712 million when compared to Order No. 2009-104(A).
- b. **Escalation.** The forecasted cost of escalation on the project has declined by \$214 million compared to 2008. This is true even taking into account the increased cost of the project, and the effect of extending the project by two years.

1 c. **Financing.** Since 2008, SCE&G has been able to obtain low-cost
2 borrowing for the project based on support from the BLRA, SCE&G's
3 favorable bond ratings, and the low cost of financing available in debt
4 markets. Compared to the projections presented in 2008, customers are
5 anticipated to save approximately \$1.2 billion in interest costs (in future
6 dollars) over the life of the debt that has been issued to date to finance
7 the project and on future issuances where interest rates have been
8 hedged.

9 d. **Production Tax Credits.** The 2005 Energy Policy Act provides a
10 production tax credit to qualifying new nuclear units of 1.8 cents per
11 kWh during the first eight years of operation. The credits are limited to
12 6,000 MW of nuclear capacity built during a specified period with
13 qualifying units sharing the credits pro rata. In 2008, SCE&G
14 anticipated its total benefit would be \$1.06 billion gross of tax. Now it
15 appears that there will be a smaller number of competing utilities so that
16 SCE&G will receive a larger amount of credits. Assuming that the
17 current completion dates can be maintained, SCE&G's forecasted
18 benefit has increased by approximately \$1.2 billion in future dollars
19 since 2008. SCE&G intends to pass all of the savings from the tax
20 credits directly to its customers as fuel cost credits.

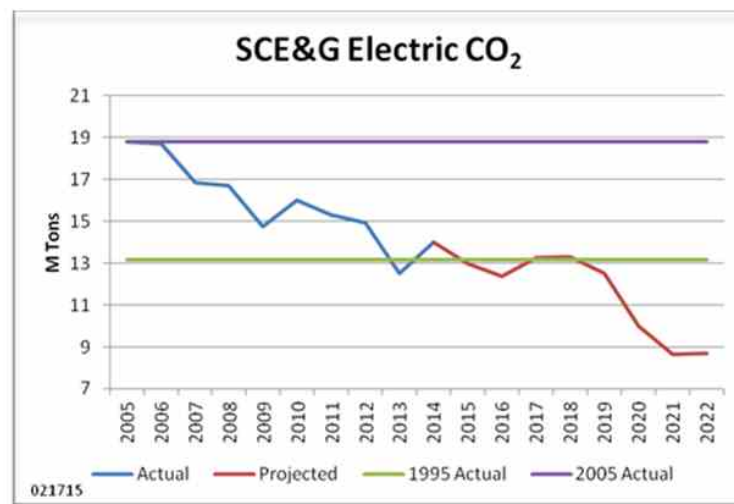
21 The impact of these savings will more than offset the impact to
22 customers of the forecasted \$712 million increase in 2007 capital cost. For

that reason, the combined capital and related cost to customers today does not exceed the estimate provided to the Commission in 2008.

Q. HOW HAS THE VALUE OF THE UNITS TO SCE&G'S SYSTEM CHANGED IN RECENT YEARS?

A. When SCE&G and Santee Cooper made the decision to construct these Units, they did so to capture the value of adding 2,234 MW of efficient and non-emitting, base-load generation to their generation portfolios to serve the people of South Carolina. In large part because of the Units, SCE&G projects that by 2021 it will have reduced its carbon emissions by 54% compared to their 2005 levels, and 34% compared to 1995 levels. Chart B shows the forecasted reduction in CO₂ emissions in millions of tons:

Chart B
SCE&G's Forecasted CO₂ Emissions



1 There have also been immediate environmental benefits from the
2 Units. In 2008, the Company committed to evaluate whether building the
3 Units might support retiring smaller coal units. The Company has followed
4 through on this commitment. Since 2008, SCE&G put in place plans to
5 retire 730 MW of smaller coal generating facilities. Canadys Units 1, 2 and
6 3 have been taken out of service. Urquhart Unit 3 has been converted to gas
7 generation only. For reliability purposes, SCE&G must maintain
8 McMeekin Units 1 and 2 in service pending the completion of the new
9 nuclear Units. But the current plan is to fuel the McMeekin units with
10 natural gas after April 15, 2016. They may be taken out of service
11 altogether when the Units come on line. SCE&G plans to bridge the gap
12 between these retirements and the completion of the new nuclear Units
13 through interim capacity purchases.

14 **Q. HOW DOES THE ENVIRONMENTAL PROTECTION AGENCY’S**
15 **(“EPA”) PROPOSED CLEAN POWER PLAN AFFECT THE**
16 **VALUE OF THE UNITS?**

17 A. EPA’s proposed Clean Power Plan was issued in June 2014. The
18 accompanying Clean Power Plan regulations are not yet in final form. But
19 they will require substantial cuts in CO₂ emissions from most state’s
20 electric generation fleets. Planning for these reductions underscores the
21 value and importance of nuclear generation.

22 **Q. HOW DOES THE CLEAN POWER PLAN WORK?**

1 A. The Clean Power Plan is based on Section 111(d) of the Clean Air
2 Act which governs existing generating units. In that plan, EPA has
3 computed a target carbon intensity rate for each state's fleet of existing
4 large power plants. That target carbon intensity rate is expressed in pounds
5 of carbon per megawatt hour of electricity generated (lb/MWh). The Plan
6 leaves it to the states to decide how to achieve mandated reductions and
7 how to allocate those reductions among plant operators.

8 In computing the target for South Carolina, EPA treats the Units as
9 existing units and assumes that they were operating at a 90% capacity
10 factor in 2012. The plan then mandates reductions in carbon intensity rate
11 from that artificially reduced baseline.

12 **Q. WHAT ARE THE SPECIFIC LIMITS BEING PROPOSED FOR**
13 **SOUTH CAROLINA?**

14 A. EPA is proposing that South Carolina reduce its discharges from its
15 actual 2012 carbon intensity of 1,587 lb/MWh to 772 lb/MWh, a 51%
16 reduction. Compliance will be phased-in beginning in 2020. In its
17 comments to EPA, SCE&G has proposed that the Units not be included in
18 the 2012 baseline calculation. If that is done, South Carolina's carbon
19 intensity target goes to 990 lb/MWh which would mean a reduction in
20 carbon emissions of 38% compared to actual 2012 emissions.

21 **Q. HOW DOES THIS AFFECT THE VALUE OF THE UNITS TO**
22 **SCE&G'S CUSTOMERS?**

1 A. It is not clear how the proposed EPA regulations will change, or how
2 the State will allocate the required reductions among affected power plant
3 owners. However, for South Carolina to meet its targets efficiently, it will
4 be critically important to complete the Units. There is no other source of
5 non-emitting, dispatchable, base load power available to replace the
6 generation represented by the Units. Generation sources that produce any
7 air emissions are now under intense regulatory pressure. There is no reason
8 to assume that this trend will not continue over the long term. Adding non-
9 emitting nuclear generation has tremendous value in the current
10 environmental context.

11 **Q. WHAT ABOUT OTHER NON-EMITTING TECHNOLOGIES?**

12 A. Solar and renewable resources and energy efficiency will play an
13 increasingly important role in SCE&G's generation mix going forward.
14 SCE&G was an active participant in the group that formulated and
15 advocated the adoption of the South Carolina Distributed Energy Resources
16 Act found in Act No. 236 of 2014. SCE&G is currently working to achieve
17 the renewable resources goals established by the South Carolina General
18 Assembly in that Act. The achievement of those goals is fully reflected in
19 all of our capacity and generation forecasts. The same is true of the energy
20 efficiency goals established in SCE&G Demand Side Management (DSM)
21 program as approved by this Commission. However, with current

1 technologies, renewable resources and energy efficiency cannot displace
2 the need for reliable, dispatchable base load generation.

3 Because of EPA regulations limiting carbon discharges, it is
4 extremely difficult to permit new coal generation. For that reason, the only
5 dispatchable, base load alternative to nuclear generation today is combined-
6 cycle natural gas generation. Natural gas generation involves lower levels
7 of CO₂, NO_x, and SO_x emissions than coal. However, natural gas
8 generation does entail some emissions of CO₂ and the six criteria air
9 pollutants. Nuclear generation remains the only base load resource that is
10 entirely non-emitting with respect to these air pollutants.

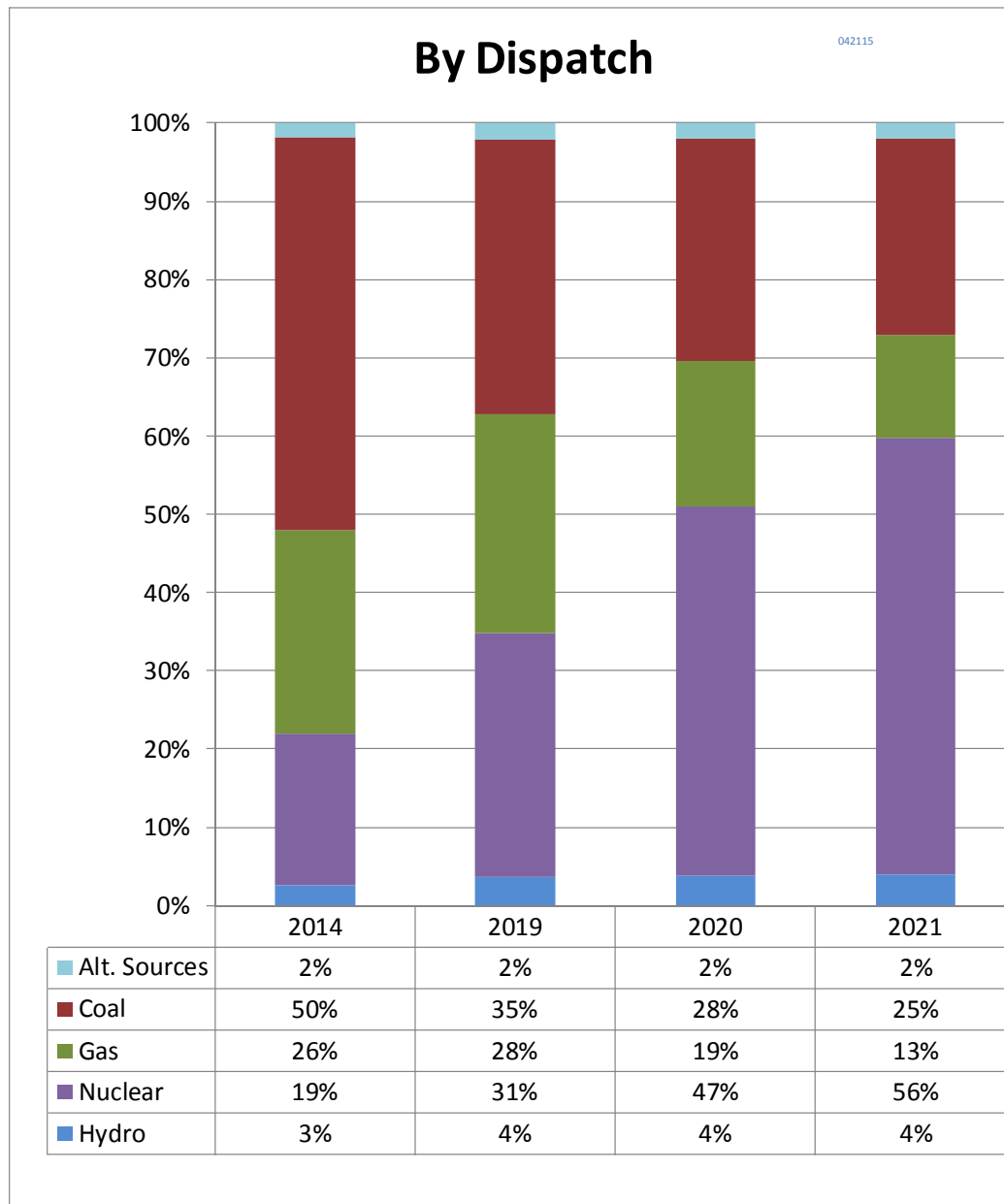
11 **Q. WHAT IS SCE&G'S PLAN TO REDUCE ITS CO₂ EMISSIONS?**

12 A. As the Company's witnesses testified in 2008, one of SCE&G's
13 long-term goals in choosing to use new nuclear generation was to create a
14 system with a majority of its energy being supplied from non-emitting
15 sources. Chart C on the following shows how that plan stands today.

16 [Chart C begins on the following page]

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Chart C
SCE&G's Current and Forecasted Generation Mix



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In 2014, 23% of SCE&G generation of energy was from non-emitting facilities. (In 2019-2021, approximately one-half of the Alternative Resources

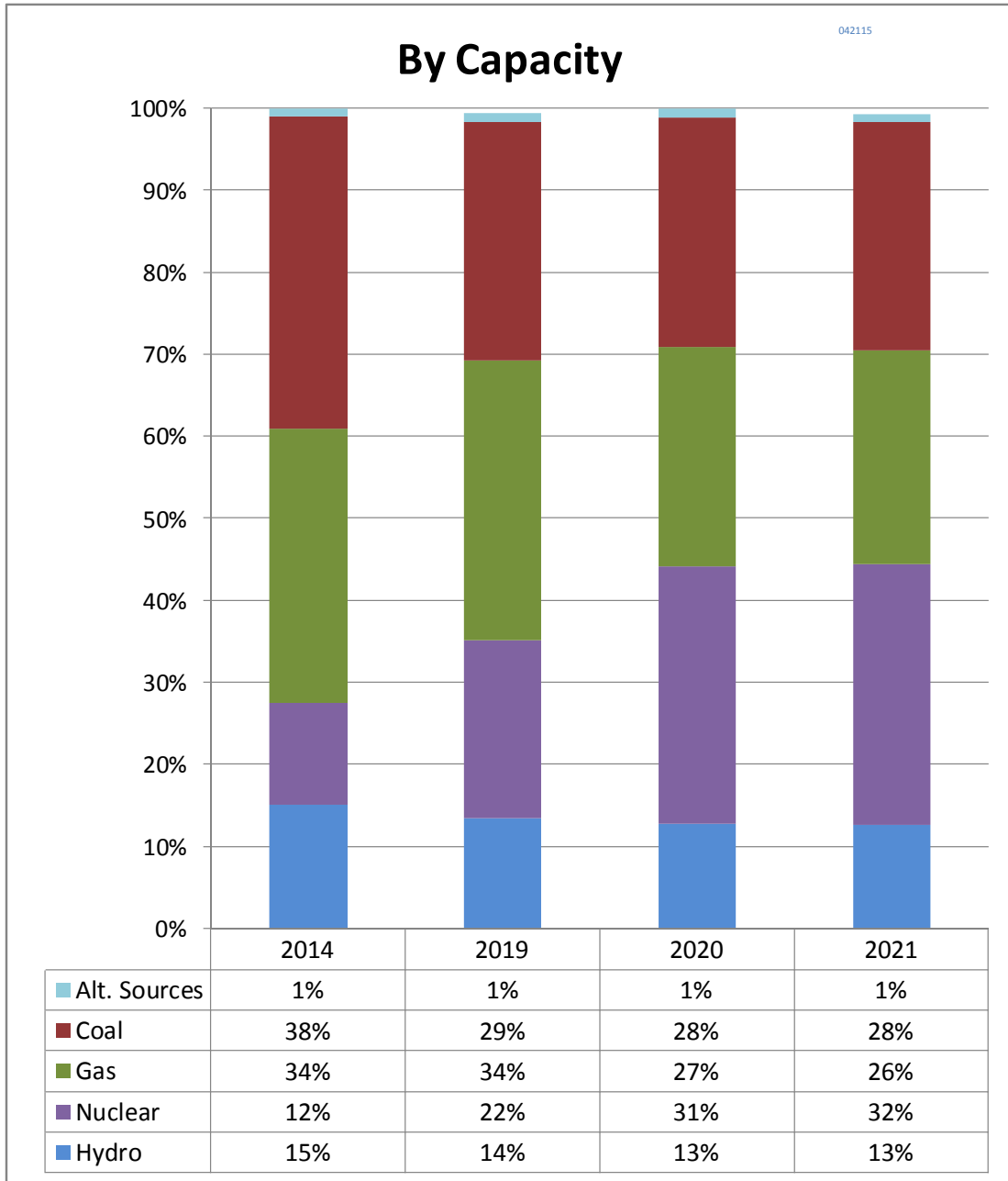
1 listed in Chart C are non-emitting. The remainder is biomass). In 2021,
2 which is the first full year that both Units 2 and 3 will be on line, we
3 estimate that 61% of the energy serving SCE&G's customers will come
4 from non-emitting sources. SCE&G is on track to achieve its goal to create
5 a generating system with markedly reduced levels of CO₂ emissions and
6 reduced exposure to the risk and costs associated with them.

7 **Q. IN 2008, DIVERSIFICATION OF FUEL SOURCES WAS AN**
8 **IMPORTANT GOAL FOR SCE&G. IS THAT TRUE TODAY?**

9 A. The Company testified in 2008 that diversification of fuel sources
10 was an important reason why adding nuclear generation would provide
11 value to SCE&G's customers. That continues to be the case today.

12 SCE&G's current capacity mix is weighted 72% towards fossil fuel,
13 with coal representing 38% of that capacity, and natural gas representing
14 34%. In large part because of the addition of nuclear generation, SCE&G
15 will have a well-balanced generation system in 2021 with 28% of its
16 capacity in coal units, 26% of its capacity in natural gas units, 32% of its
17 capacity nuclear units and 14% of its capacity in hydro/biomass/solar
18 facilities. In 2021, the three principal fuel sources, nuclear, coal and natural
19 gas, will each represent a significant and balanced component of capacity.
20 Chart D shows this capacity mix in a graphic form:
21

Chart D
SCE&G's Current and Forecasted Capacity Mix



Creating this balanced mix of capacity will give SCE&G operating flexibility to respond to changing market conditions and environmental regulations. I am not aware of a cost effective way today to create this

flexibility other than by adding new nuclear capacity. This is particularly true now that for environmental reasons adding new coal capacity is no longer feasible. If SCE&G were to meet its 2020-2021 base load generation needs by adding new natural gas generation, then fossil fuels (natural gas, oil, and coal) would account for approximately 75% of SCE&G's generation in 2021, with gas alone representing 48% of its generation. Given the increasing environmental pressures on coal and the technological limitations on relying on renewables for base load capacity, under any reasonable scenario the system's reliance on natural gas is likely to go up steadily in the years following 2021. Without the new nuclear capacity represented by the Units, SCE&G's system would likely be locked into a significantly unbalanced generation portfolio with increasing reliance on natural gas generation today and in the decades to come.

On the other hand, adding nuclear capacity creates a balanced generation portfolio. As was the case in 2008, this continues to be an important reason that building these Units provides value to our customers.

Q. DO CURRENT LOW NATURAL GAS PRICES CHANGE THE VALUE THAT THE UNITS WILL PROVIDE TO CUSTOMERS?

A. Hydraulic fracturing, or "fracking," has reduced the cost and increased the supply of natural gas at this time and for some years in the future. However, predictions of future natural gas prices are notoriously unreliable over the long-term. The planning horizon for determining the

1 value of a nuclear unit is 60 years or more. Prices for fuels are historically
2 volatile as natural gas will change over that time. The lesson of history is
3 that fossil fuel prices will change dramatically and unexpectedly over that
4 long a time. Therefore, prudent utility generation plans seek to create
5 balanced systems that can respond as prices fluctuate over time and are not
6 overly dependent on any one fuel source. As discussed above, that is what
7 SCE&G's generation plan seeks to do.

8 In the case of natural gas supplies and fracking, there are efforts
9 underway to limit fracking based on environmental concerns. But the issues
10 go beyond fracking. The Sierra Club indicates on its current website that it
11 is committed to "putting natural gas back in the dirty box with its fossil fuel
12 brethren." In its "Beyond Natural Gas" campaign, the Sierra Club tells
13 readers of its website that "[t]otal life-cycle emissions for coal and gas are
14 nearly equivalent," and that "[t]he Sierra Club continues to legally
15 challenge new natural gas plants and demand requirements that limit their
16 emissions of greenhouse gases." According to the Sierra Club, "[n]atural
17 gas is not part of a clean energy future."⁴ It is only reasonable to assume
18 that once coal plants are closed, restricting natural gas generation will
19 become the principal focus of entities like the Sierra Club.

20 In addition, domestic United States natural gas prices are still out of
21 line with global prices:

⁴ <http://content.sierraclub.org/naturalgas/protect-our-climate> (accessed May 20, 2015).

CHART E

Landed LNG Prices, April 2015

(\$US/MBTU)



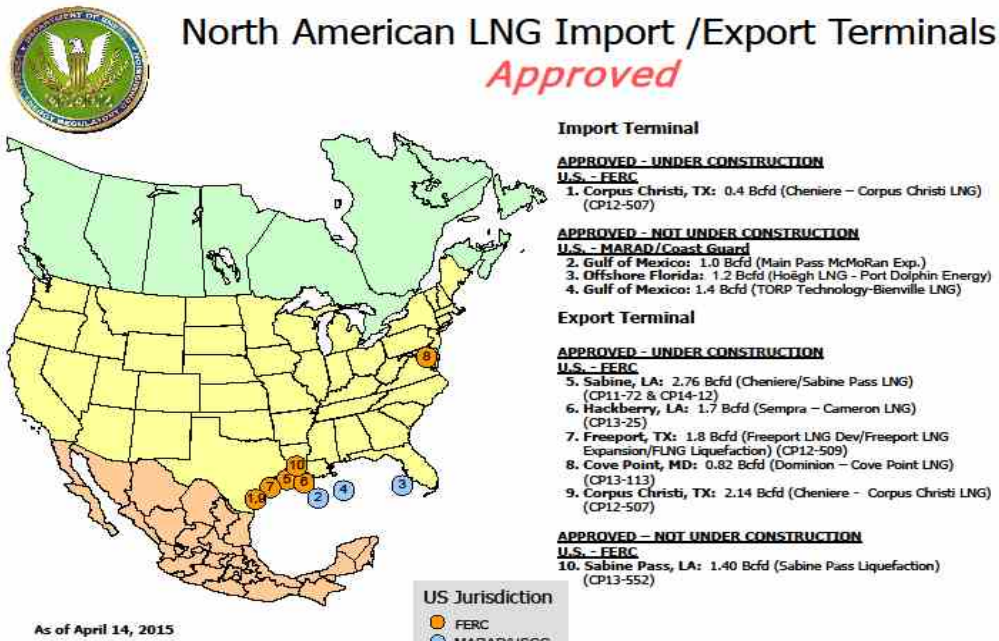
<http://www.ferc.gov/market-oversight/mkt-gas/overview/ngas-ovr-lng-wld-pr-est.pdf>

Updated: April 2015

How long the current price disparities can remain is difficult to determine. But there is every reason to expect that in the coming years U.S. natural gas prices may begin to respond to global markets and the global hunger for energy. Major energy companies are moving to expand their infrastructure to export natural gas produced in the United States as liquefied natural gas (“LNG”). A review of the reported 2015 data indicate that 24 new LNG export facilities have been approved or proposed to be permitted in the United States. Another 26 sites are listed as potential export sites in North America.

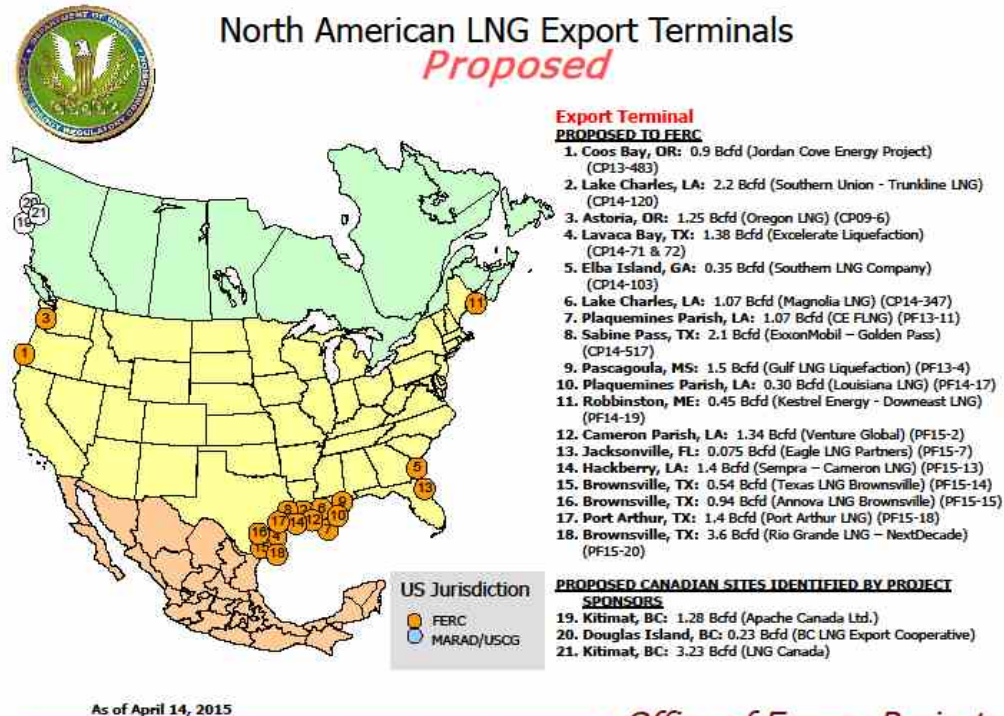
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CHART F



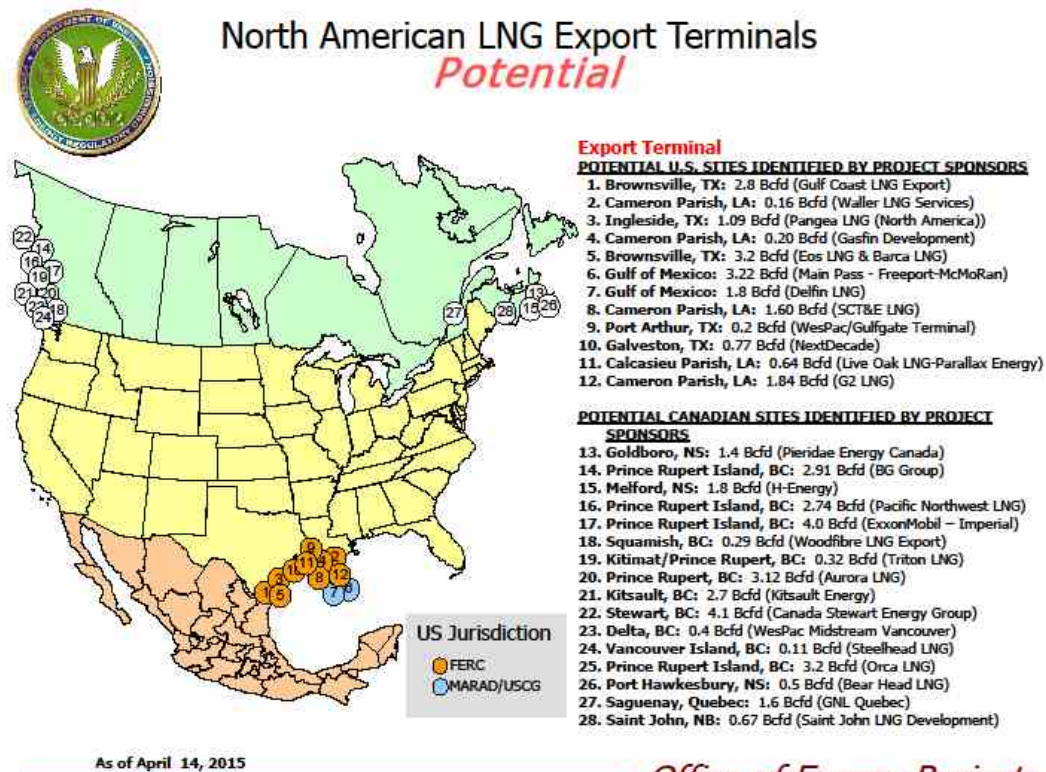
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Office of Energy Projects



3

Office of Energy Projects



Furthermore, there are questions about how to make sufficient pipeline capacity available to transport natural gas to consumers if the greater part of the nation's future energy needs will be supplied by natural gas indefinitely. A number of new pipelines are under construction or have been proposed such as the new Atlantic Coast Pipeline being constructed from West Virginia to North Carolina. Capacity in these pipelines will be significantly more expensive than existing pipeline capacity.

SCE&G continues to believe that over the long planning horizon that is involved when procuring base load generation units, the unbalanced reliance on any single fuel source is dangerous from both a cost and a reliability standpoint. Over the long-term, prices will change unpredictably.

1 I have testified to that fact before this Commission in past proceedings. It
2 continues to be my firm belief.

THE

3 **Q. WHERE DOES /COMPANY'S FINANCIAL PLAN REGARDING**
4 **THE UNITS PLAN STANDS TODAY?**

5 A. As of March 2015, SCE&G had successfully raised the capital
6 necessary to support \$3.1 billion of the \$6.8 billion cost of the Units in
7 future dollars (which is comparable to \$5.2 billion in 2007 dollars). This
8 represents approximately 46% of the value of the Units when completed.
9 SCE&G has supported this investment through issuance of debt in the form
10 of first mortgage bonds of SCE&G and equity from SCE&G's retained
11 earnings, and sales of common stock by SCANA and retained earnings of
12 SCANA, the proceeds of which have been contributed to SCE&G. Where
13 possible, SCE&G has locked in favorable interest rates for future
14 borrowings. As of March 2015, interest rates on approximately \$1.3 billion
15 in anticipated 2015-2016 borrowings have been locked in at an estimated
16 effective rate of 5.09%.

17 **Q. HOW HAS THE FINANCIAL COMMUNITY RESPONDED TO**
18 **SCE&G'S BORROWING TO SUPPORT THE UNITS?**

19 A. As evidenced by SCE&G's recent debt offerings, the financial
20 community has been supportive of SCE&G's plan to finance the
21 construction of these Units. The financial community is comfortable with
22 the careful and consistent approach to applying the BLRA that has been

1 followed by the ORS and Commission since its adoption. Since 2009,
2 SCE&G has issued approximately \$1.5 billion in first mortgage bonds
3 through eight separate issues that are directly related to the nuclear project.
4 The weighted average interest rate of these bonds is only 4.99%.

5 **Q. COULD YOU PROVIDE EXAMPLES OF SUCCESSFUL**
6 **MARKETING OF BONDS IN RECENT YEARS?**

7 A. SCE&G's \$250 million bond issue in February 2011 was
8 oversubscribed by a factor of eight and was ultimately priced at the lowest
9 end of the indicated interest rate range. SCE&G's \$250 million bond issue
10 in January 2012 was oversubscribed by a factor of six and, when issued,
11 bore "one of the lowest 30-year coupons of all time," as reported at the time
12 by Credit Suisse. Nevertheless, the next issue, which was SCE&G's \$250
13 million issue in July 2012, bore a yield which "represent[ed] the lowest 30-
14 year utility yield on record," as reported at that time by Well Fargo.
15 SCE&G's \$300 million May 2014 bond issue represented the first 50-year
16 bond issued in the utility and power sector and only the sixth such bond
17 ever issued in the United States. It was oversubscribed by a factor of 13 and
18 was issued at a rate estimated to be only 35 basis points higher than a 30-
19 year bond would have borne.

20 **Q. HOW DID THE MARKET RESPOND TO SCE&G'S MOST**
21 **RECENT BOND ISSUE?**

1 A. In May of this year, SCE&G issued \$500 million in 50-year first
2 mortgage bonds. The interest rate was favorable at 5.1%. However, on the
3 day of the issuance the subscriptions for this issue were slow in coming. At
4 one point, it appeared that the entire \$500 million might not be sold. In the
5 closing hours of the offering, it required a slight nudge upward in the
6 interest rate to bring the book of potential buyers from \$400 million to the
7 expected \$500 million. While the interest rate on the bonds was still very
8 good, it was the first time in recent years that the issuance was not
9 oversubscribed. In most other cases, the bonds were quickly
10 oversubscribed.

11 **Q. DO YOU KNOW WHY THESE BONDS WERE MORE DIFFICULT**
12 **TO SELL?**

13 A. We polled several investment banking firms involved in the
14 transaction. They reported that an important factor for many potential
15 buyers was their concern over regulatory risk related to the current filing.
16 Bond buyers have options. If bond buyers have concerns about SCE&G's
17 risk profile, it is often just as easy for them to buy bonds of companies that
18 do not face such risks as to buy SCE&G's bonds.

19 **Q. WHAT IS YOUR CONCLUSION FROM THESE FACTS?**

20 A. The market is becoming increasingly sensitive to SCE&G's
21 regulatory risk in the nuclear context. The 'overhang' of the current
22 proceeding has brought that risk into focus for the market. We were able to

1 complete the transaction successfully and at a good interest rate, but what
2 we learned is that the risk of losing market support for our financing plan is
3 real. That could happen if the market loses confidence in the consistent
4 application of the BLRA.

5 **Q. WHAT IS THE FINANCIAL PLAN FOR COMPLETING THE**
6 **UNITS GOING FORWARD?**

7 A. In mid-2015, we are entering a critical time in the execution of our
8 financial plan. We anticipate spending approximately \$940 million on the
9 Units in 2015, approximately \$1 billion in 2016, and approximately \$900
10 million in 2017. After that time, annual capital expenditures are anticipated
11 to drop quickly. During this three year period, SCE&G will not have the
12 option of waiting out unfavorable conditions in the capital markets or
13 postponing issues during periods where it has achieved unfavorable
14 financial or regulatory results as a company. During this time, it will be
15 vitally important that SCE&G maintain access to capital markets on
16 favorable terms. If SCE&G can maintain access on such terms, the
17 Company may be able to continue to reduce debt costs and the costs to
18 customers from financing the Units as compared to the 2008 projections.
19 However, if access to capital markets on favorable terms is lost, the reverse
20 is true. Financing costs will go up, and in some circumstances, it could
21 prove impossible to finance the completion of the Units.

1 **Q. WHAT ROLE DOES THIS PROCEEDING PLAY IN SCE&G**
2 **EXECUTING ITS FINANCIAL PLAN?**

3 A. Nothing is more important to SCE&G's financial plan than that we
4 sustain the market's understanding that ORS and the Commission will
5 continue to apply the BLRA in a fair and consistent way. The financial
6 markets understand that the Commission and ORS may come under
7 pressure to deviate from the terms of BLRA as challenges appear in the
8 construction project. The decision here will provide the financial markets
9 with an important signal concerning how the markets should expect that the
10 BLRA will be applied over the remaining five years of the project. That
11 will greatly impact how the financial community assesses the financial and
12 regulatory risks of the project and the rates and terms on which SCE&G
13 will be able to finance the approximately \$3.4 billion of debt and equity
14 that remains to be raised.

15 **Q. PLEASE EXPLAIN WHY YOU BELIEVE THAT THE BLRA IS SO**
16 **IMPORTANT TO THE FINANCING PLAN FOR THE UNITS.**

17 A. The BLRA was adopted to make it possible for electric utilities like
18 SCE&G to consider building new nuclear units. Before the BLRA was
19 adopted, building a new nuclear plant was not a viable option for SCE&G.
20 For SCE&G to seriously consider adding new nuclear capacity, legislative
21 action was needed to overcome two major challenges. These are the two
22 challenges which the BLRA sought to address:

The Financing Challenge. Recovering the financing costs of a project during construction was the first challenge. During construction of a base load plant, a company must raise hundreds of millions of dollars of new capital each year to finance construction costs. Each time bonds are issued to pay for construction, debt service increases. Unless there is a corresponding increase in revenues, debt service coverage ratios decline as do other financial ratios. Bond ratings are based on these ratios. As these ratios decline, the creditworthiness of the company suffers. In time, bond ratings are downgraded. At that point, raising capital on favorable terms can be extremely difficult or potentially impossible. Capital to complete the plant may not be available.

On the equity side, each time additional common stock is issued to support construction, there are more shares outstanding. Additional dividends must be paid. Without new revenues, earnings are diluted. As earnings are diluted, the attractiveness of the stock and its value decline. To finance the next round of construction, a higher number of lower-priced shares must be issued to generate the same amount of capital. This causes yet more dilution and further weakens the value of the stock going into the next financing cycle.

The only solution is for the company to generate revenues sufficient to pay debt service, meet coverage ratios and provide reasonable levels of earnings per share as the new plant is built. Some years ago the